

Bloomberg	KORI.FP
Reuters	KORI.PA
12-month High / Low (EUR)	36.3 / 23.2
Market Cap (EUR)	2,465
Ev (BG Estimates) (EUR)	4,678
Avg. 6m daily volume (000)	102.4
3y EPS CAGR	20.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.9%	10.0%	17.3%	-8.7%
Healthcare	-3.1%	4.1%	2.6%	-8.3%
DJ Stoxx 600	-1.7%	5.2%	-0.2%	-7.0%

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	29.0x	22.1x	19.2x	16.5x
FCF yield (%)	7.8%	10.6%	11.2%	12.3%
Dividends (EUR)	0.60	0.60	0.60	0.60
Div yield (%)	2.0%	2.0%	2.0%	2.0%
EV/Sales	1.6x	1.6x	1.5x	1.3x
EV/EBITDA	12.0x	11.7x	10.4x	9.1x
EV/EBIT	18.8x	18.2x	15.8x	13.5x



Confirming the group's position as a full senior care provider with existing business (i.e nursing Homes, Geriatric clinics, Home Care and Service flats), new management presented and quantified its 2021 strategic plan. The latter is defined by a focus on five main levers: 1-organic growth, 2-improvement of current operating results, 3-higher investment in human resources, 4-more dynamic real estate management, and 5-medical innovation and digital solutions and 15 key projects. Overall, the 2021 strategic plan sounds credible. The plan/group is finally in working order, but most measures have yet to be implemented and positive impacts on results will take some time objectively announced by the management. We are confirming our opinion. Fair Value under review.

#### ANALYSIS

- Main financial guidances for 2021:** Management objectives, which are in fact not far from our current numbers, is to deliver:
  - Top line growth of 5% per annum o/w c.3% on organic and c.2% with bolt-on acquisitions to reach by end of the plan EUR3.8bn (our current number on our DCF is EUR3.7bn);
  - EBITDA margin of c. 14.5% in 2021 vs. 13.7% expected in 2016 with limited improvement during the first two years (objective to be c 14% in 2019) mainly due to Germany with adaptation measures that require time to deliver results (time to recover Curamum's operating performance, to manage Casa Reha integration and to offset anticipated German market changes). From Germany, management expects to reduce base costs by EUR25m over 3 years.
  - Operating Free Cash Flow up 50% from EUR150m anticipated in 2016 to reach over EUR225m (our forecasts are respectively EUR176m in 2016e and EUR239m in 2021e);
  - Dividend maintained at the same level than last year i.e.EUR 0.60 per share.
- Real estate valuation and Korian's strategy:** Group ownership structure represents 14% of operating assets contributing same % of 2015 revenue. Based on historical book value of EUR764m, the market valuation has been estimated at EUR980m using an average cap rate of 5.7% o/w 5.4% for France representing 77% of real estate valuation. Real estate debt is EUR390m. With an effort rate of 53% on average and significant discrepancy between countries, the objective is to be under 50% in 2021 by being more active in portfolio management (renegotiation lease conditions, or using pre-emption rights, with the decision to internalise real estate know-how and to build a strategic partnership with real estate investors).
- Standalone Operating Cash flow to implement the strategy:** Based on EBITDA expectations, the group will have resources to finance its strategy taking into account maintenance capex of around 3.5% of consolidated revenue including notably an IT project (a 3 year c. EUR25m investment plan) with more around EUR100m cash available per year after dividend for expansion (bolt-on acquisitions). Under a clear governance for development by CEO/CFO for all project, management confirmed criterias of an IRR after tax between 1.5x and 2x WACC minimum and a ROCE after tax over WACC in year 3. Finally, financial leverage would stand c. 4x (covenant under 4.5x) during the first part of the plan to reach 3.5x at the end.

#### VALUATION

- At the current share price and before some adjustments to our forecast after CMD, the stock is trading at 11.7x EV/EBITDA 2016e and 10.4x 2017e, which compares with historical average of 9.3x.

#### NEXT CATALYSTS

- Q3 revenue on 26<sup>th</sup> October



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