Healthcare Sector

Comparables Analysis

Comparison of healthcare companies in emerging and mature markets

TresVista Financial Services
July 2015

Analysis of the Healthcare Sector

The following analysis is based on share prices as of July 28, 2015. We have divided the set into two segments, (mature markets and emerging markets) highlighting the difference in their operating profitability as well as trading levels. In our analysis, we have also compared KPJ Healthcare Berhad of Malaysia with rest of the set.

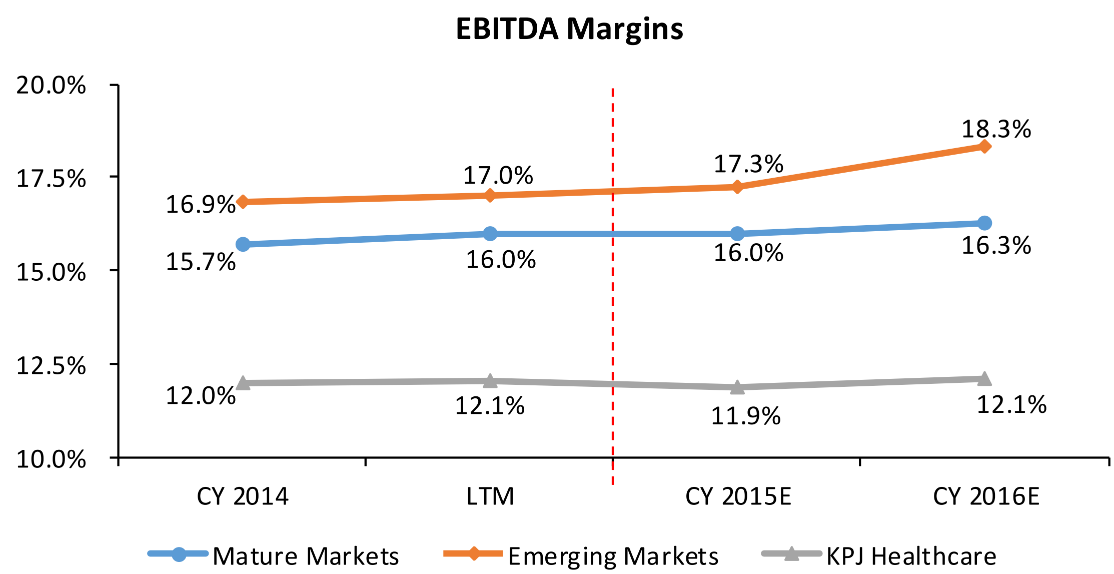
We have included industry specific ratios along with standard ratios. Industry specific ratios include Adjusted Enterprise Value (EV) / EBITDAR, and EV / Beds, where in the adjusted EV is calculated as EV + Capitalized Operating Lease, while EBITDAR is calculated as EBITDA + Rent Expense. Capitalized Operating Lease is calculated by taking eight times the LTM rental expenses.

EBITDA Margins

- Emerging market companies have a median LTM EBITDA margin of 15.5%, while mature market companies have a margin of 14.9%. This is primarily due to cost benefits such as low SG&A, and low COGS as opposed to the mature markets.

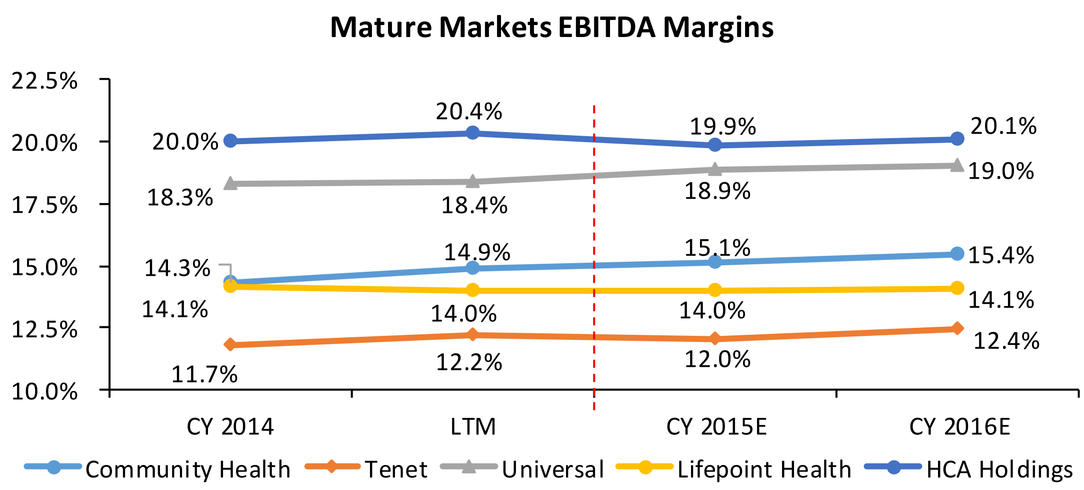
- Margins are expected to be more or less constant for KPJ Healthcare, however the margin for mature markets are expected to increase from 15.7% (LTM) to 16.3% in 2016 and the margins for emerging markets are expected to increase from 16.9% (LTM) to 18.3% in 2016

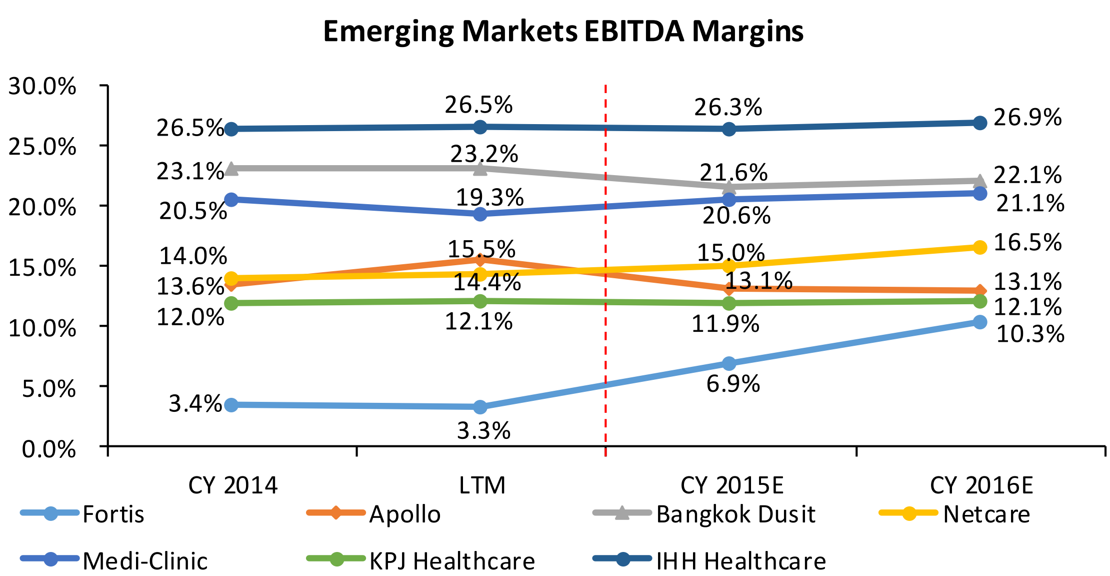
- KPJ's LTM EBITDA margin is 12.1%, which is significantly lower than the emerging market median of 15.5%. KPJ's medical consultants' fees and employee benefit costs are very high relative to its emerging market peers, leading to lower EBITDA margin. KPJ's LTM cost of goods sold (COGS) was 70.5% of sales, whereas the median for emerging markets was at 53.2%.



Note: Mature markets represents the average of Community Health, Tenet, Universal, FifePoint, and HCA Holdings. Emerging markets represents the average of Fortis, Apollo, Bangkok Dusit, Netcare, Medi-Clinic, and IHH Healthcare

- HCA Holdings and IHH Healthcare have the highest margins in the mature and emerging markets respectively.





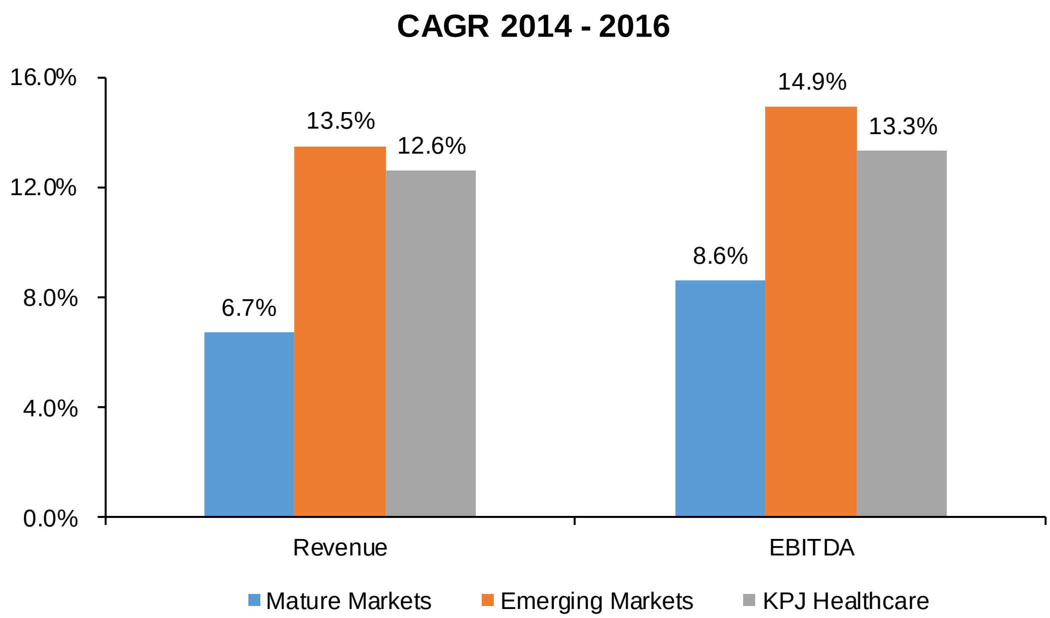
Growth Rates

- As one would expect, emerging markets show a higher growth rate for the two year period till 2016. Based on the companies in the set, revenue CAGR (2014-2016) for emerging markets (excluding KPJ) is ~13.5%, while for mature markets it is ~6.7%.

- EBITDA CAGR (2014-2016) follows the revenue CAGR trend as can be seen in the figure on the next page. Emerging market companies (excluding KPJ) are expected to clock ~14.9% EBITDA growth compared to ~8.6% for the mature markets. This essentially indicates that the margins are expected to expand going forward.

- Apollo is a major contributor to the emerging market's high revenue and EBITDA growth with an expected CAGR of 18.3% and 16.0% for revenue and EBITDA, respectively.

- KPJ's revenues and EBITDA are expected to grow at CAGR of ~12.6% & ~13.3% respectively for same period. This is comparable to the emerging market median growth of ~13.3% & ~14.5% respectively.



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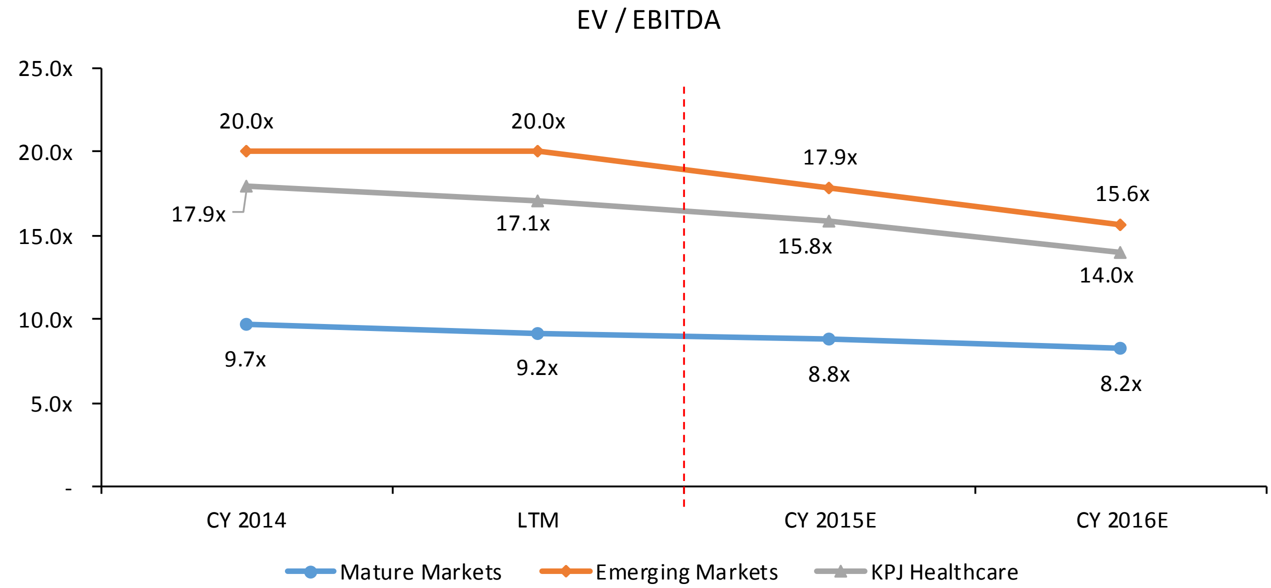
Trading Multiples

- Emerging market companies have consistently enjoyed premium valuations over mature markets. They are trading close to 19.4x their LTM EBITDA (excluding Fortis and IHH Healthcare which are trading at ~72.0x and ~5.0x, respectively) which translates to a premium of around 111.4% over their mature market counterparts. For CY 2015E and CY 2016E, the premium valuations are expected to come down to ~98.9% and ~71.3%, respectively.

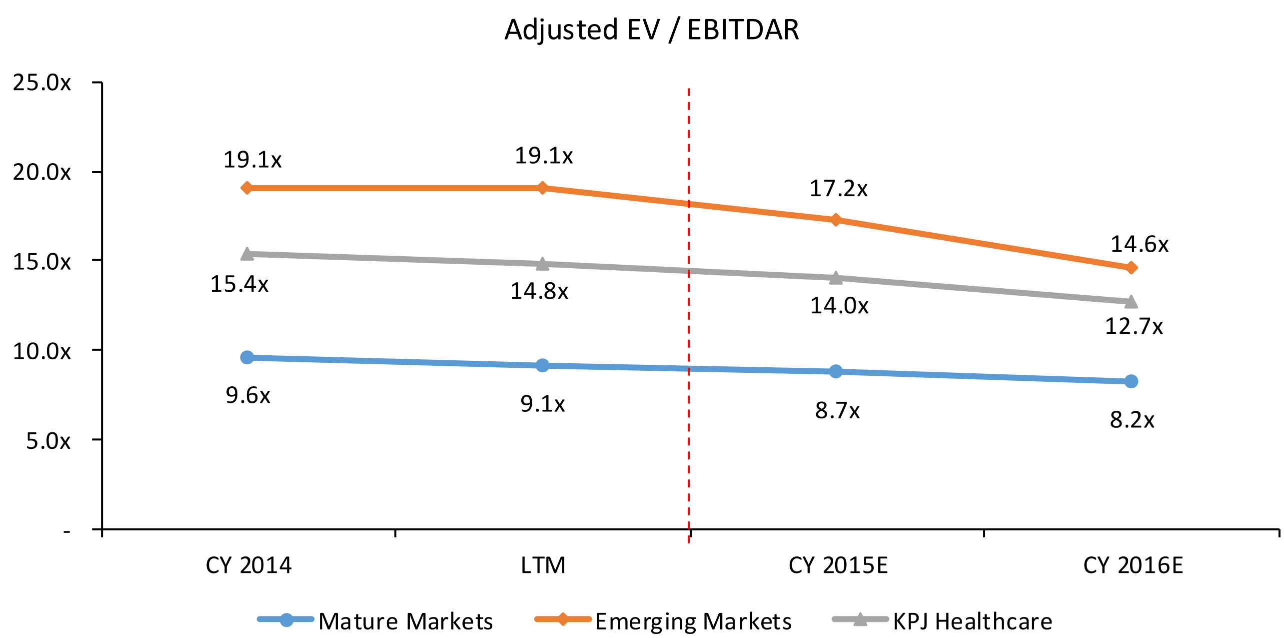
- Higher growth rate and EBITDA margins for the emerging markets justify their higher valuations

- KPJ trades at 17.1x its LTM EBITDA which is at par with the median of the emerging economies (excluding Fortis and IHH Healthcare).



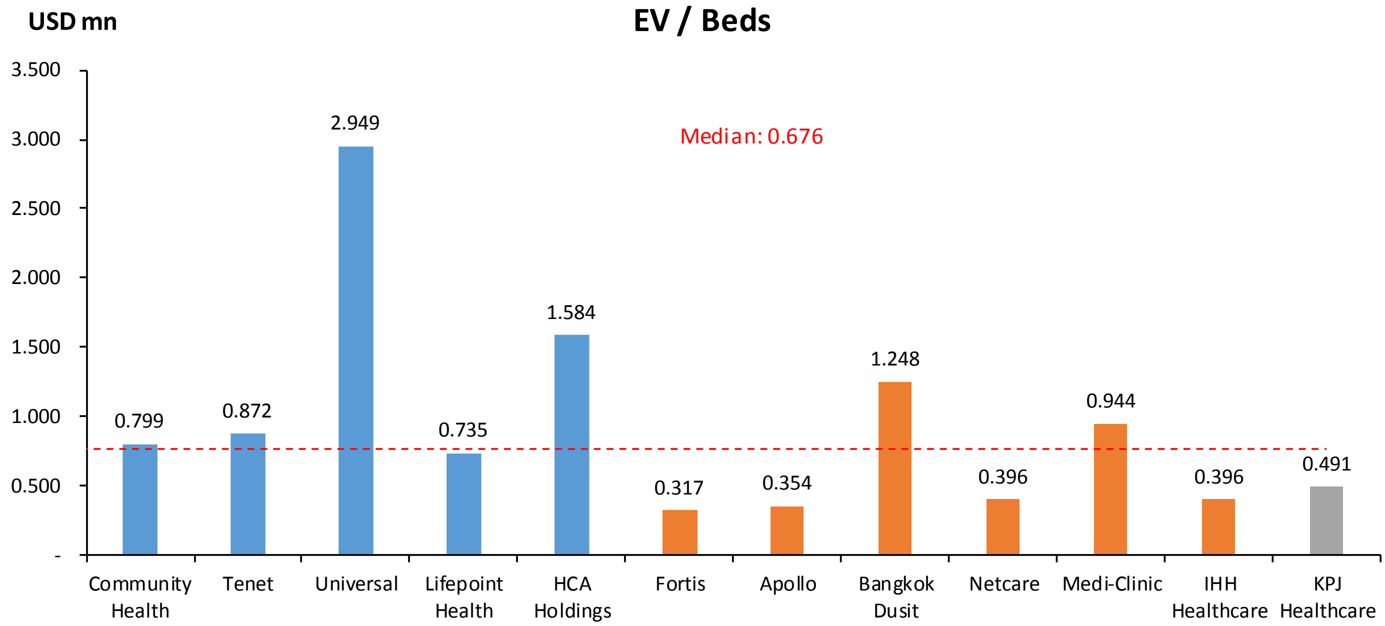
Note: Mature markets represents the average of Community Health, Tenet, Universal, FifePoint, and HCA Holdings. Emerging markets represents the average of Apollo, Bangkok Dusit, Netcare, and Medi-Clinic

- Emerging market companies command 18.2x adjusted enterprise value for the LTM EBITDAR. This again is higher than 9.1x for the mature markets. *(Fortis and IHH Healthcare have been excluded from the calculation as they are trading at outside the decided limits).*

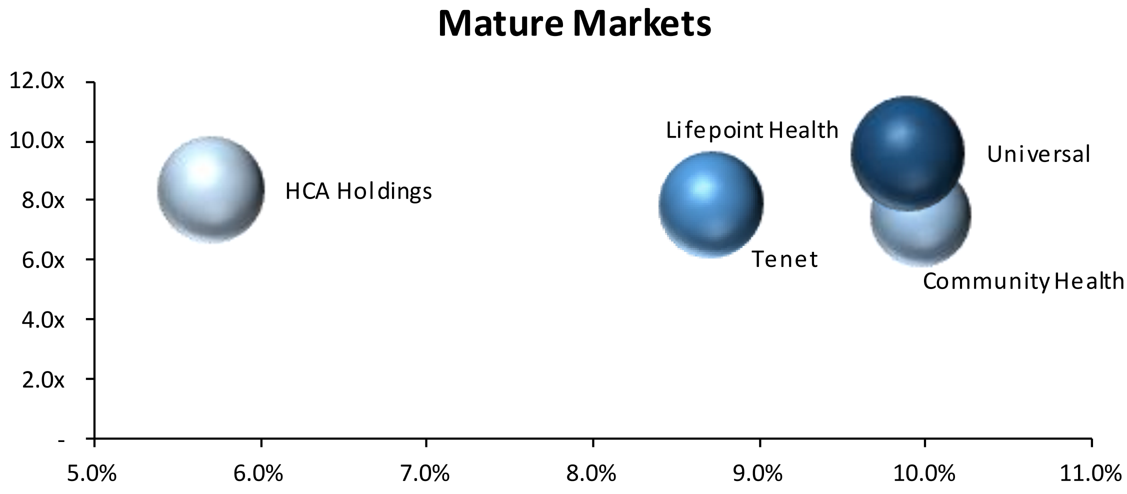


Note: Mature markets represents the average of Community Health, Tenet, Universal, FifePoint, and HCA Holdings. Emerging markets represents the average of Apollo, Bangkok Dusit, Netcare, and Medi-Clinic. Fortis and IHH Healthcare have been removed from the calculations as they skew the average.
Adjusted EV = EV + Capitalized Operating Lease. EBITDAR = EBITDA + Rent Expense

- On EV / Beds basis, the median of all the companies in the mature and emerging markets is USD 767,000 per bed. Universal Healthcare and Bangkok Dusit are trading at the highest multiples in mature and emerging markets, respectively


USD mn
EV / Beds
Median: 0.676
3.500
3.000
2.500
2.000
1.500
1.000
0.500
-
0.799
0.872
2.949
0.735
1.584
0.317
0.354
1.248
0.396
0.944
0.396
0.491
Community Health
Tenet
Universal
Lifepoint Health
HCA Holdings
Fortis
Apollo
Bangkok Dusit
Netcare
Medi-Clinic
IHH Healthcare
KPJ Healthcare

- HCA Holdings has the highest market cap and trades at around 8.4x 2016E EV/EBITDA compared to Community Health's 7.5x, Tenet's 7.9x, Lifepoint's 7.8x, and 9.5x for Universal.



- KPJ's market cap is the lowest in the emerging market set and its 2016E EV / EBITDA is 14.0x which is lower than the median of emerging markets EV / EBITDA of 15.6x (excluding IHH Healthcare which is trading at ~4.1x of the 2016E EBITDA).