

A Brighter Scene; Raising Our 12M PT but Cutting Rating on Recent Rally

Analyst

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Cleopatra Hospital Co.'s (CLHO) stock price surpassed our 12M PT that we set initially on 30 December 2018 at EGP5.78/share in less than three months. More recently, the company posted 2018 results that came somewhat better than our expectations, especially in terms of operational cost. In this note, we update our financial model post 2018 results and after adding a seventh hospital to our valuation. We are raising our 12M PT to EGP6.78/share but cutting our rating from Overweight to Neutral in view of the recent stock price rally.

- What has changed:** In view of CLHO's 2018 results, we updated our financial model, taking into consideration the number of patients served during the year in each business segment (i.e. inpatients, outpatients, etc.). We factored in our estimates the pricing of different services as per CLHO management's latest guidance. Hence, we updated our estimates for existing hospitals' and the new acquired hospitals' margins. We also added a seventh hospital that the company is planning to add to its portfolio. Updates to our financial model can be summarized as follows:

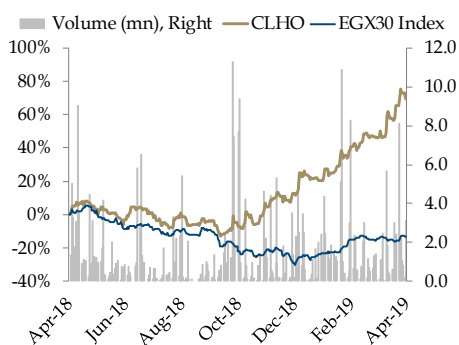
- Adjustments of our estimates for existing hospitals:**

- We increased our volume estimates for all main segments, in view of the number of patients served in 2018 (924,904, +6% y/y). Our new estimates imply 2018-2025 volume CAGR of +1.7% (vs. +0.8% in our previous estimates).
- We increased our price estimates in line with management guidance to raise overall prices by 11-15% in 2019, depending on market competition.

- Adjustments of our estimates for new acquisitions (El-Katib Hospital and Queens Hospital), adding a seventh hospital:**

- We conservatively adjusted the effective period of consolidation to six months only (July-December 2019), rather than the full year (2019) as per our old estimates.
- We raised our volume and pricing estimates for both hospitals across our forecast horizon as we derive our estimates for them relative to existing hospitals' occupancy and utilization rates.

Stock chart & data



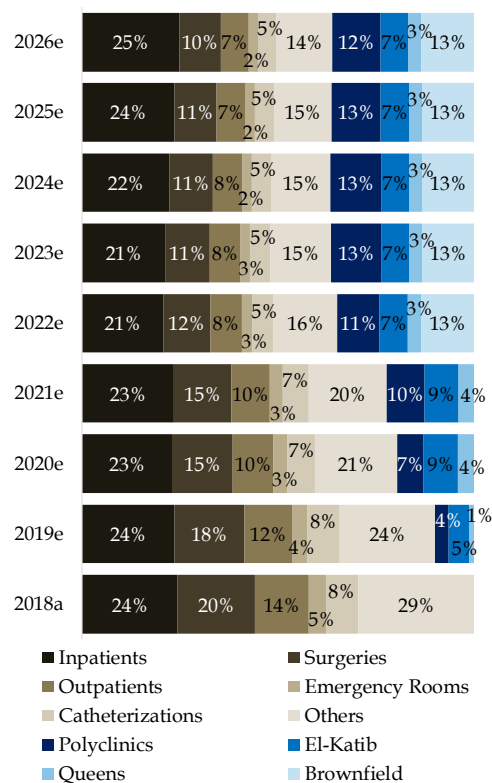
Last Price (EGP)	6.50
52 Week Range (EGP)	3.2 - 6.9
6M-ADVT (EGPmn)	7.30
Market Cap (EGPmn)	10,400
No. of Shares O/S (mn) / Free float	1,600.0 / 30.6%

Financial summary

EGPmn, except per-share	2016a	2017a	2018a	2019e	2020e	2021e
Revenue	864	1,127	1,456	1,992	2,579	3,484
EBITDA	174	213	363	503	714	987
Net Income	76	106	295	398	528	744
Revenue Growth (%)	110%	30%	29%	37%	29%	35%
EBITDA Growth (%)	66%	23%	70%	39%	42%	38%
Net Income Growth (%)	14%	38%	179%	35%	33%	41%
EBITDA margin	20.1%	18.9%	24.9%	25.3%	27.7%	28.3%
Net margin	8.8%	9.4%	20.3%	20.0%	20.5%	21.3%
Net Debt (Cash)	(61)	(655)	(858)	(898)	(1,168)	(1,728)
EPS (EGP)	0.53	0.51	0.18	0.25	0.33	0.46
BVPS (EGP)	2.83	0.83	1.00	1.24	1.56	1.89
DPS (EGP)	-	-	-	-	0.12	0.17
ROAE	18%	10%	19%	21%	23%	26%
ROAA	7%	5%	12%	15%	16%	19%
PER (x)	4.7x	9.5x	25.0x	26.1x	19.7x	14.0x
PBV (x)	0.9x	5.8x	4.6x	5.3x	4.2x	3.4x
EV/EBITDA (x)	2.5x	33.4x	17.9x	18.9x	12.9x	8.8x
Dividend Yield	-	-	-	-	1.9%	2.6%

Source: Company reports, SHUAA Securities Egypt.

Segments' contribution to revenues



Source: Company disclosure, SHUAA Securities Egypt.

- Adding a seventh hospital:** In our initiation of coverage report we had referred to CLHO's intent to acquire greenfield and brownfield hospitals as part of its expansion strategy. CLHO has now shortlisted one brownfield 200-bed hospital subject to have its contract signed during 2019. In our financial model, we expect this new brownfield hospital—the seventh for CLHO—to impact results 18-24 months after the signing date. Such acquisitions will target empty hospitals with management undertaking all necessary set-up in line with its code of standards.
 - The impact on CLHO's blended earnings and margins:** Based on our updated organic and inorganic expansion estimates, we now forecast higher 7-year CAGRs (2018-2025) for revenue (+22% vs. 19% previously), EBITDA (+27% vs. 26%), and earnings (+29% vs. 24%). We now expect blended margins to expand across our forecast horizon with GPM averaging 40% (vs. 37% previously), EBITDA margin averaging 30% (vs. 27%), and net margin averaging 25% (vs. 21%). The below table depicts changes versus our previous estimates.
 - Changes to our capex assumption:** While we maintained our estimates for polyclinics establishment cost, we made the following changes to our capex estimates:
 - El-Katib Hospital:** Management has so far paid EGP88.5mn for the real estate assets, leaving EGP177.3mn to be paid during 2019 for the operations (as per the IFA study).
 - Queens Hospital:** We now account for the actual acquisition cost of EGP27mn, as per management guidance.
 - New hospital:** We have accounted for the new brownfield hospital acquisition cost of EGP350mn to be paid in two installments in 2020 and 2021.

- Raising our 12M PT to EGP6.78/share (ETR +4.3%), yet cutting our rating from Overweight to Neutral on price rally:** We updated our DCF-based valuation which ranged from EGP4.99/share (the lowest in our worst-case scenario) to EGP13.17/share (the highest in our best-case scenario). We also updated our multiples valuation based on MENA peers' median 2019e P/E and EV/EBITDA, which pointed to a fair value of EGP6.50/share. Our weighted average 12M PT now stands at EGP6.78/share (+4.3% upside), using our DCF-based (50%) and multiples (50%) valuation models. We, thus, cut our rating from Overweight to Neutral while keeping our Low Risk rating.

Changes to our estimates

* 2018 figures are actual in "Updated estimates" rows.

	Unit	2018a*	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	7-Year CAGR
Revenues (Previous estimates)	EGP mn	1,465	2,036	2,467	2,890	3,369	3,922	4,454	5,045	na	19.3%
Revenues (Updated estimates)	EGP mn	1,456	1,992	2,579	3,484	4,023	4,640	5,234	5,889	6,637	22.1%
GP (Ex. Depreciation) (Previous estimates)	EGP mn	510	704	871	1,043	1,243	1,474	1,719	2,002	na	21.6%
GP (Ex. Depreciation) (Updated estimates)	EGP mn	560	760	1,029	1,384	1,605	1,853	2,106	2,395	2,733	23.1%
GPM (Ex. Depreciation) margin (Previous estimates)	%	34.8%	34.6%	35.3%	36.1%	36.9%	37.6%	38.6%	39.7%	na	
GPM (Ex. Depreciation) margin (Updated estimates)	%	38.5%	38.2%	39.9%	39.7%	39.9%	39.9%	40.2%	40.7%	41.2%	
EBITDA (Previous estimates)	EGP mn	329	472	615	770	943	1,145	1,359	1,610	na	25.5%
EBITDA (Updated estimates)	EGP mn	363	503	714	987	1,177	1,396	1,630	1,905	2,231	26.7%
EBITDA margin (Previous estimates)	%	22.5%	23.2%	24.9%	26.6%	28.0%	29.2%	30.5%	31.9%	na	
EBITDA margin (Updated estimates)	%	24.9%	25.3%	27.7%	28.3%	29.3%	30.1%	31.1%	32.3%	33.6%	
Net Profits (Previous estimates)	EGP mn	269	370	486	596	723	873	1,038	1,230	0	24.3%
Net Profits (Updated estimates)	EGP mn	295	398	528	744	936	1,168	1,437	1,752	2,127	29.0%
Net Margin (Previous estimates)	%	18.4%	18.2%	19.7%	20.6%	21.5%	22.3%	23.3%	24.4%	na	
Net Margin (Updated estimates)	%	20.3%	20.0%	20.5%	21.3%	23.3%	25.2%	27.4%	29.8%	32.0%	

Source: Company disclosure, SHUAA Securities Egypt.

DCF valuation

	Unit	2018a	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	
KPIs	Revenues	EGP mn	1,456	1,992	2,579	3,484	4,023	4,640	5,234	5,889	6,637
	YoY Growth	%	29.2%	36.8%	29.5%	35.1%	15.5%	15.3%	12.8%	12.5%	12.7%
	EBITDA	EGP mn	363	503	714	987	1,177	1,396	1,630	1,905	2,231
	EBITDA margin	%	24.9%	25.3%	27.7%	28.3%	29.3%	30.1%	31.1%	32.3%	33.6%
	Adjusted EBITDA *	EGP mn	405	558	783	1,076	1,276	1,504	1,747	2,029	2,364
	Adjusted EBITDA margin	%	27.8%	28.0%	30.4%	30.9%	31.7%	32.4%	33.4%	34.5%	35.6%
	EBIT	EGP mn	316	448	605	848	1,031	1,244	1,480	1,754	2,077
	EBIT Margin	%	21.7%	22.5%	23.5%	24.3%	25.6%	26.8%	28.3%	29.8%	31.3%
Net Profits After Taxes	EGP mn	295	398	528	744	936	1,168	1,437	1,752	2,127	
PV of FCFF Calculation			2018a	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
	EBIT		316	448	605	848	1,031	1,244	1,480	1,754	2,077
	Taxes on EBIT		(71)	(101)	(136)	(191)	(232)	(280)	(333)	(395)	(467)
	Depreciation & Amortization		47	56	109	140	147	152	151	151	154
	Capex (including acquisition cost)		(135)	(597)	(416)	(212)	(201)	(139)	(157)	(177)	(199)
	Change in Working Capital		(24)	(44)	(53)	(75)	(31)	(31)	(20)	(17)	(15)
	FCFF		133	(239)	110	510	714	946	1,120	1,317	1,550
	PV of FCFF			(209)	81	327	397	457	471	481	492
Terminal value (end of 2026) - based on average valuation driven by TGR of 7.1%											19,152
Valuation Assumptions	Terminal WACC Calculation			2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
	Adjusted Beta	0.74	Equity weight	99.4%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	US ERP	5.4%	Debt weight	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Country Risk Premium	3.8%	Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Cost of Equity (CoE)	15.1%									
	After Tax Cost of Debt (AT CoD)	13.0%	AT CoD	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
	Terminal Growth Rate	7.1%	WACC	20.5%	17.5%	15.7%	15.3%	15.1%	15.1%	15.1%	15.1%
	Terminal ROIC	60.9%	ROIC	23.9%	24.6%	30.8%	34.4%	40.0%	46.2%	53.2%	60.9%
	Terminal WACC	15.1%									
	<i>All figures in EGP mn except per share numbers</i>										
Fair Value	Sum of PV of FCFF (2019-2026)	2,498									
	PV of Terminal Value	6,078									
	Enterprise Value	8,576									
	Long-term Investment (2018)	0.4									
	Net debt/(Net Cash) (2018)	(858)									
	Minority Interest (2018)	75									
	Equity value	9,360									
	No. of shares	1,600.0									
Fair value	5.85										
Fair value (in 12 months)	7.05										

* Adjusted for provisions, impairments, and acquisitions expenses.

Source: SHUAA Securities Egypt estimates.

Sensitivity tables

Best case

Growth	Terminal WACC				
	17.1%	16.1%	15.1%	14.1%	13.1%
9.1%	7.88	8.63	9.63	11.04	13.17
8.1%	7.33	7.92	8.68	9.69	11.11
7.1%	6.89	7.36	7.96	8.72	9.74
6.1%	6.53	6.92	7.40	8.00	8.76
5.1%	6.23	6.56	6.95	7.43	8.03

Base case

Growth	Terminal WACC				
	17.1%	16.1%	15.1%	14.1%	13.1%
9.1%	6.97	7.61	8.47	9.69	11.51
8.1%	6.50	7.01	7.66	8.53	9.76
7.1%	6.13	6.54	7.05	7.71	8.59
6.1%	5.83	6.17	6.58	7.09	7.76
5.1%	5.57	5.86	6.20	6.61	7.13

Worst case

Growth	Terminal WACC				
	17.1%	16.1%	15.1%	14.1%	13.1%
9.1%	6.16	6.71	7.45	8.49	10.05
8.1%	5.77	6.21	6.77	7.52	8.57
7.1%	5.46	5.81	6.25	6.82	7.58
6.1%	5.21	5.50	5.85	6.30	6.87
5.1%	4.99	5.24	5.53	5.89	6.34

Source: SHUAA Securities Egypt estimates.

The Financial Model

Income Statement (EGP mn)							Per-Share Data						
FY End: December	2016a	2017a	2018a	2019e	2020e	2021e		2016a	2017a	2018a	2019e	2020e	2021e
Total Revenues	864	1,127	1,456	1,992	2,579	3,484	Price	2.49	4.86	4.60	6.50	6.50	6.50
Cost Of Operations	(586)	(750)	(896)	(1,232)	(1,550)	(2,100)	# Shares (mn)	145.3	207.7	1,600.0	1,600.0	1,600.0	1,600.0
Gross Profit	278	376	560	760	1,029	1,384	EPS	0.53	0.51	0.18	0.25	0.33	0.46
EBITDA	174	213	363	503	714	987	DPS	-	-	-	-	0.12	0.17
Depreciation & Amortization	(32)	(43)	(47)	(56)	(109)	(140)	BVPS	2.83	0.83	1.00	1.24	1.56	1.89
EBIT	142	170	316	448	605	848	Valuation Indicators						
Non-operating income/(expenses)	(21.7)	(15)	92	102	124	167	PER (x)	4.7x	9.5x	25.0x	26.1x	19.7x	14.0x
Net Profits Before Taxes	120	155	408	550	729	1,015	PBV (x)	0.9x	5.8x	4.6x	5.3x	4.2x	3.4x
Income Tax & Extraordinary Items	31	37	93	124	164	228	EV/Sales (x)	0.5x	6.3x	4.5x	4.8x	3.6x	2.5x
Net Profits After Taxes	76	106	295	398	528	744	EV/EBITDA (x)	2.5x	33.4x	17.9x	18.9x	12.9x	8.8x
Balance Sheet (EGP mn)							Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	37.0%	37.0%
FY End: December	2016a	2017a	2018a	2019e	2020e	2021e	Dividend Yield	0.0%	0.0%	0.0%	0.0%	1.9%	2.6%
Current Assets							Profitability & Growth Ratios						
Total cash & short-term investments	440	1,007	953	966	1,168	1,728		2016a	2017a	2018a	2019e	2020e	2021e
Accounts receivable, net	126	185	303	368	473	635	Revenue Growth	110%	30%	29%	37%	29%	35%
Inventories	46	30	41	63	79	103	EBITDA Growth	66%	23%	70%	39%	42%	38%
Other Current Assets	26	28	56	69	86	111	EPS Growth	14%	38%	179%	35%	33%	41%
Total current assets	637	1,250	1,353	1,467	1,806	2,577	EBITDA Margin	20%	19%	25%	25%	28%	28%
Net property, plant and equipment	397	473	560	1,102	1,409	1,481	Net Profit Margin	7%	8%	19%	19%	20%	21%
Goodwill & Other intangible assets	246.4	241.0	241.4	241.4	241.4	241.4	ROAE	18%	10%	19%	21%	23%	26%
Other assets	-	144	144	-	-	-	ROAA	7%	5%	12%	15%	16%	19%
Total assets	1,280	2,107	2,298	2,811	3,456	4,299	Liquidity & Solvency Multiples						
Short-term debt	52	76	27	68	-	-		2016a	2017a	2018a	2019e	2020e	2021e
Accounts Payable	86	99	158	187	235	309	Net Debt/(Cash)	(61)	(655)	(858)	(898)	(1,168)	(1,728)
Other Current Liabilities	146	181	254	344	447	609	Net Debt (Cash)-to-Equity	-10.8%	-49.2%	-53.5%	-45.3%	-46.9%	-57.3%
Total current liabilities	284	355	439	599	682	918	Net Debt (Cash)-to-EBITDA	-0.4x	-3.1x	-2.4x	-1.8x	-1.6x	-1.8x
Total Long Term Debt	326	276	68	-	-	-	Debt-to-Capital	40.0%	20.9%	5.6%	3.3%	0.0%	0.0%
Other non-current liabilities	104	145	187	231	286	365	Current Ratio	2.2x	3.5x	3.1x	2.4x	2.6x	2.8x
Total long term liabilities	430	421	255	231	286	365	Consensus Estimates (EGPmn)						
Net Paid in capital	100	800	800	800	800	800		2019e	2020e	2021e			
Total Reserves & Retained Earnings	467	530	804	1,181	1,688	2,217	Revenues	1,911	2,407	2,930			
Shareholders' equity	567	1,330	1,604	1,981	2,488	3,017	Shuaa Research vs. Consensus	4%	7%	19%			
Total equity and liabilities	1,280	2,107	2,298	2,811	3,457	4,299	Net Income	351	454	580			
Cash Flow Statement (EGP mn)							Shuaa Research vs. Consensus						
FY End: December	2017a	2018a	2019e	2020e	2021e		PER (x), Shuaa Price Target	27.2x	20.5x	14.6x			
Net Cash From Operating Activities	(45)	257	407	577	814		PBV (x), Shuaa Price Target	5.5x	4.4x	3.6x			
Net Cash used in Investing Activities	(114)	(135)	(597)	(416)	(212)		EV/EBITDA (x), Shuaa Price Target	19.8x	13.5x	9.2x			
Net Cash used in Financing Activities	498	(166)	197	35	(48)								
Net Change in Excess Cash	340	(44)	7	196	554								
Capex	(114)	(135)	(597)	(416)	(212)								

Note: Historical EPS are based on weighted average number of shares. Historical EPS growth is based on net income.
 Source: Company reports, SHUAA Securities Egypt estimates.

Disclosure Appendix

METHODOLOGY: When setting an investment and risk ratings, we utilize all publicly-available sources to build an understanding of the issuer's business model and hence its intrinsic value based on one or more valuation methods. To reach a valuation, we assess factors that we deem relevant, including—but not limited to—macro, sector, and company-specific aspects.

INVESTMENT RATING: Depending on each issuer's business model, we may use (1) an income approach, (2) a markets-based approach, (3) an asset-based approach, and/or (4) sum-of-the-parts approach. In certain cases where we do not have our own financial and valuation models, we may present the consensus rating/view. For all securities actively covered, we assign one of three investment ratings (Overweight, Neutral, or Underweight) depending on the security's expected total return (price + yield) over a 12-month investment horizon as compared to the security's Required Rate of Return (RRR) as calculated using the Capital Asset Pricing Model (CAPM) and adjusted for the Risk Rating we assign to the security. Please read below for more details about our Risk Rating. Our assigned fair values are subjective and are estimates of the analysts where the security(ies) covered will trade within the next 12 months. The assigned investment rating/fair value is only valid for a maximum of three months from the date it was set.

RISK RATING: Based on the overall risk profile of each issuer/security covered, we assign one of three risk ratings (High, Moderate, or Low). The risk rating is a function of a weighted assessment of the issuer's (1) sector, (2) corporate profile, and (3) security and related volatility. The assigned risk rating is only valid for a maximum of three months from the date it was set.

Analyst Certification

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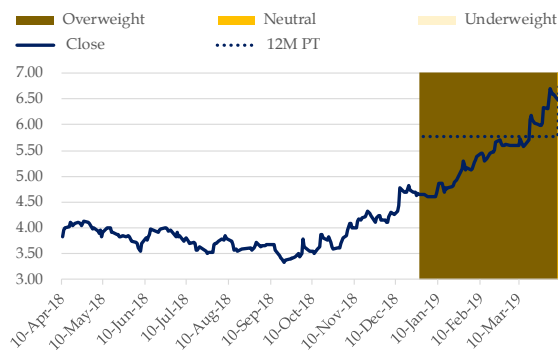
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Return / Risk Profile

	If Total Return is ...	Investment Rating		
		Overweight	Neutral	Underweight
Risk Rating	Low	Higher than RRR	Between RRR and 20% of RRR	Lower than 20% of RRR
	Moderate	Higher than RRR	Between RRR and 40% of RRR	Lower than 40% of RRR
	High	Higher than RRR	Between RRR and 60% of RRR	Lower than 60% of RRR
	Not Rated (NR)	We have decided not to publish a rating on the stock due to certain circumstances related to the company (i.e. special situations).		
	Not Covered (NC)	We do not currently cover this stock or we are restricted from coverage for regulatory reasons.		

Investment Rating & Price Target History



Rating history

From	To	Date	Analyst
NC	Overweight	30-Dec-18	Ahmed Abdelnaby
Overweight	Neutral	8-Apr-19	Ahmed Abdelnaby

12-month price target history

From	To	Date	Analyst
None	5.78	30-Dec-18	Ahmed Abdelnaby
5.78	6.78	8-Apr-19	Ahmed Abdelnaby

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