

Equities

20 September 2011 | 7 pages

Fortis Healthcare (FOHE.BO)

Alert: A Surprising Change in Strategy

We are surprised at Fortis Healthcare's decision to buy out its founders' privately held firm, Fortis Healthcare International, which focuses on international operations. We were never too enamored of overseas expansion by Indian hospitals and were happy with the management's repeated statements that the listed entity would focus on India alone. This change in stance thus comes as a negative surprise to us.

What is Fortis Healthcare International? Fortis Healthcare International (FHI) is a Singapore-based healthcare delivery company with operations outside India - in Hong Kong, Dubai, Australia, New Zealand, Canada, Singapore, Sri Lanka, Vietnam and Mauritius. The founders of Fortis Healthcare (Singh brothers) own FHI.

A big consolidated entity - Post acquisition, Fortis Healthcare will have 12,000+ beds across c74 hospitals, 580 primary care centers, 188 day care centers, 190 diagnostic centers and a base of over 23,000 employees and over 4,000 doctors. We do not have financial details for FHI, other than that its revenues are in the cUS\$500m range.

Await further details - on financials and valuations (to be done by an independent firm) before revisiting our estimates / target price. However, financials apart, the diversification and resultant stress on the Fortis Healthcare balance sheet could put pressure on valuations, in our view.

Fortis Healthcare (FOHE.BO; Rs144.30; 1L)

■ Industry Overview

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fortis Healthcare

(FOHE.BO; Rs144.30; 1L)

Valuation

Our target price for Fortis is Rs190. We prefer to use EV/EBIDTA versus EBIDTA CAGR as the primary method to value the company. We believe that hospital companies in India would have a predictable and steady revenue stream, given high unmet demand and low but growing penetration of organized healthcare. However, given that these companies are still in an investment phase, we believe EBIDTA provides a much better reflection of the operating profitability of the business at this point. Fortis has only one directly comparable company listed on the Indian market - Apollo Hospitals. We value Fortis at a slight premium to Apollo, at 16x EBITDA (vs 15x for Apollo) as we believe Fortis' greater scale & geographical diversification post the WHL hospitals acquisition merit a higher multiple. Our current EV/EBIDTA multiple of 16x is also in the range that Fortis has traded over the last several years. At 16x Sep'12E EBITDA we arrive at a target price of Rs190.

Risks

Our risk rating for Fortis is Low Risk as suggested by our quants-based rating system, which tracks 260-day historical share price volatility. Key downside risks to our target price include: 1) Execution is a key risk - delays in setting up hospital projects; 2) Rising cost of capital - given the capital intensive nature of the business; 3) Higher cost of real estate and/or inability to get property at the desired locations could impact operations

Appendix A-1

Analyst Certification

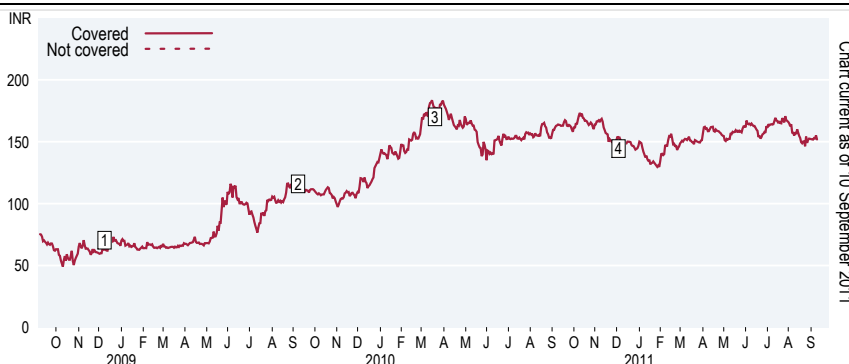
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Fortis Healthcare (FOHE.BO)

Ratings and Target Price History Fundamental Research

Analyst: Prashant Nair, CFA



	Date	Rating	Target Price	Closing Price
1	9-Dec-08	3H	*59.00	62.95
2	8-Sep-09	*3M	*110.00	110.95

	Date	Rating	Target Price	Closing Price
3	19-Mar-10	3M	*145.00	177.55
4	3-Dec-10	*1L	*190.00	152.90

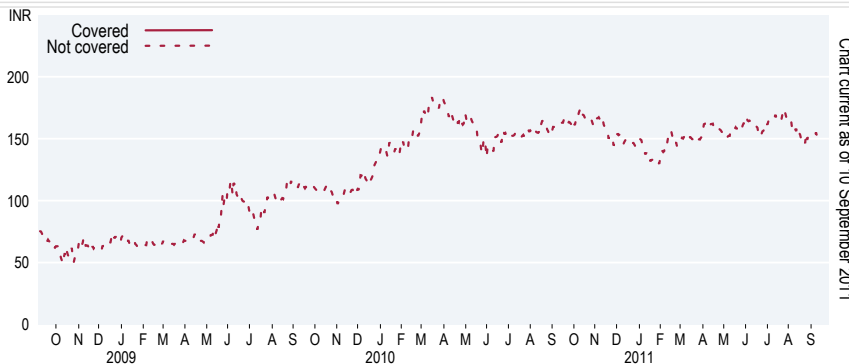
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Fortis Healthcare (FOHE.BO)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Prashant Nair, CFA



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Rating/target price changes above reflect Eastern Standard Time

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