



Nawaloka Hospitals PLC (NHL.N0000: LKR 3.30): Hold

TICKER	NHL				
Market Price	3.30				
Group	NAWALOKA HOSPITALS				
Year ending	March				
No.of shares (Voting)	1,409.51				
No.of shares (Non-Voting)	-				
Mkt cap (MN)	4,792.33				
Sector	HLT				
Quarter Earnings (Pre-Tax)	1Q/2013	2Q/2013	3Q/2013	4Q/2013	
	110.18	75.60	58.54	43.70	
	1Q/2014	2Q/2014	3Q/2014	4Q/2014	
	46.93	28.56			
EPS (TTM)	0.42				
EPS (ANNUALIZED)	0.10				
EPS (TSL Forecast-2014/15E)	0.05				
EPS (TSL Forecast-2015/16E)	0.06				
EPS (NHL Forecast-2015/16E)	0.13				
	Voting				
PER (ttm)	7.86				
PER (Annualized)	33.00				
PER (TSL FORECAST-2014/15E)	62.46				
PER (TSL FORECAST-2015/16E)	56.13				
DPS -Interim (2014/FY15)	0.06				
Dividend Yield (%)	1.82%				
DPS Interim (2013/2014)	0.05				
Net Asset value (Latest Q)	3,949.61				
NBVPS	2.76				
PBV	1.20				

BRIEF

Nawaloka Hospital PLC together with its subsidiaries (collectively referred to as the Group) is one of the leading healthcare providers in Sri Lanka and is the second largest private healthcare institution in terms of revenue amongst all listed private healthcare companies, supported by its long established reputation in the healthcare sector. However of recent, competitive pressures have been mounting, and a weakening of performance indicators are evident. Certain factors such as the space constraints to accommodate outpatient volumes and a limited network of hospitals have affected the Group's margins. On-going capital expenditure plans to resolve the aforementioned issues have led to an increase in borrowings and consequently an increase in finance costs. While the Group has been successful in establishing a mini hospital in Negombo, which is expected to churn an increase in patient volumes in 2015, the expansion of the main hospital located in Colombo (13-storey building) and construction of a multi storey car park are underway. The completion of the latter project is anticipated in FY Mar 2015. Based on the above factors, our forecasts show a slight improvement in overall performance for the Group in FY Mar 2016.

FINANCIAL OVERVIEW

KEY FINANCIAL RATIOS	Actuals		Estimates	
	FY Mar 2014	6M FY Mar 2015	FY Mar 2015	FY Mar 2016
PROFITABILITY (%):				
OPBDIT Margin	17.39%	14.66%	14.00%	15.00%
Pre-Tax Profit Margin	6.89%	3.48%	1.72%	1.74%
After-Tax Return on Equity	5.35%	3.78%	1.36%	1.51%
Return on Capital Employed	7.70%	5.35%	3.82%	4.52%
CAPITALISATION (TIMES):				
Gearing Ratio	0.66	0.93	1.03	1.16
Net Gearing Ratio (excluding cash balances)	0.53	0.81	1.00	1.12
Debt-Capital Ratio	0.40	0.48	0.51	0.54
DEBT COVERAGE (TIMES):				
Interest Coverage Ratio	3.70	2.54	2.61	2.37
OPBDIT Debt Coverage Ratio	0.29	0.18	0.15	0.16
Funds from Operations Debt Coverage Ratio	0.31	0.20	0.11	0.10
CASH CYCLE (DAYS)				
Receivables Cycle	21.59	25.47	25.00	28.00
Payables Cycle	90.31	97.56	100.00	98.00
Inventory Cycle	56.86	52.02	56.00	55.00
Operating Cash Cycle	(11.86)	(20.07)	(20.07)	(19.00)

”Operating profit margins decline as competitive pressures mount”

The Group’s revenues grew at a sluggish 1.80% to reach LKR 4.30 billion in the Financial Year End (“FY Mar 2014”). The slower revenue growth resulted in a weakening of pretax profits by 34.95% to LKR 296.06 million. The Group’s performance for the 6 months as of FY Mar 2015 (“6M FY Mar 2015”) had weakened further, as revenues recorded an annualized 0.77% increase to reach LKR 4.33 billion; this together with the aggressive marketing which led to higher costs, and an increase in borrowings rendering higher finance costs, resulted in a decline in pre-tax profits by an annualized 60.32% to LKR 75.48 million in

the 6M FY Mar 2015. This decline although more prominent for the Group, was witnessed across most quoted private hospitals.

The operating profit before depreciation and interest and tax (“OPBDIT”) margins for the Group clocked in at a lower 17.39% in FY Mar 2014 and weakened further to 14.66% in 6M FY Mar 2015. The decline in margins was seen across the board, albeit at a faster decline for Nawaloka Hospitals. Asiri Hospitals’ margins were the highest reflecting its specialization in lab operations.

“Borrowings rise to fund capex”

The Group’s gearing ratio had deteriorated to 0.66 times by end-March 2014 and deteriorated further to 0.93 times by end-September 2014 reflecting the aggressive borrowings to fund the capital expenditure plans in the pipeline. The Group’s debt protection metrics had deteriorated considerably from 0.62 times in FY Mar 2013 to 0.31 times in FY Mar 2014 and further to 0.20 times mainly attributable to the increased debt burden. The cash and cash equivalents- to short term debt ratio were adequate at 2 times by end-September 2014 compared to 0.79 times as at end-FY Mar 2014.

“Price Earnings Ratio relatively lower”

The earnings per share had declined from 0.15 times in FY Mar 2014 to 0.10 times (annualized) in FY Mar 2015 as result of the weaker earnings profile. Nevertheless, the trailing PE ratio stands at 7.86 times, which is comparatively lower than that of the other quoted hospitals.

“Looking ahead....a slight improvement in performance expected for Nawaloka”

There has been a rising demand for healthcare services, with the increasingly ageing population, rising prevalence of non-communicable diseases and increasing healthcare awareness. Although profitability for the private healthcare sector came under pressure due to the increasing competition, the outlook for the private healthcare players viewed to be favorable due to the resilient demand for healthcare, the high entry barriers, and the capital intensive nature of the business as well as the limitations of the public healthcare sector. The favorable outlook together with the initiatives by the management to address its short comings would augur well for the Group in FY Mar 2016.

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NAWALOKA AND ITS LISTED COUNTERPARTS

Date: 1st January 2015

Asset Base (LKR Million)	2012/2013	2013/2014	6M Sep 2014
Nawaloka Hospitals PLC	5,855.31	7,370.40	8,476.29
Lanka Hospitals Corporation PLC	4,367.57	5,096.15	5,425.75
Asiri Hospitals	15,357.24	15,533.49	17,936.71
Ceylon Hospitals PLC (Durdans)	4,930.88	4,935.77	4,982.70

Turnover (LKR Million)	2012/2013	2013/2014	6M Sep 2014
Nawaloka Hospitals PLC Group	4,222.90	4,299.00	2,166.13
Lanka Hospitals Corporation PLC	3,405.86	4,071.91	3,423.04
Asiri Hospitals Holdings PLC	7,075.68	7,765.21	4,214.9403
Ceylon Hospitals PLC (Durdans)	3,830.37	3,961.27	1,949.822

Pre-Tax Profits (LKR Million)	2012/2013	2013/2014	6M Sept 2014
Nawaloka Hospitals PLC Group	455.09	295.96	75.484
Lanka Hospitals Corporation PLC	438.96	743.51	307.7
Asiri Hospitals	1,051.52	1,374.37	665.95
Ceylon Hospitals PLC (Durdans)	330.64	289.60	168.6

Operating Profit Before Depreciation Interest and Tax margins (%)	2012/2013	2013/2014	6M Sept 2014
Nawaloka Hospitals PLC	20.18%	17.40%	14.68%
Lanka Hospitals Corporation PLC	13.18%	17.07%	9.93%
Asiri Hospitals	32.32%	32.34%	30.09%
Ceylon Hospitals PLC (Durdans)	19.11%	17.46%	17.87%

Gearing (Times)	2012/2013	2013/2014	6M Sept 2014
Nawaloka Hospitals PLC	0.38	0.66	0.93
Lanka Hospitals Corporation PLC	0.03	0.03	0.05
Asiri Hospitals	0.84	1.43	0.03
Ceylon Hospitals PLC (Durdans)	0.40	0.43	0.39

Earnings Per Share (LKR)	6M FY Mar 2014	6M FY Mar 2013
Nawaloka Hospitals PLC	0.05	0.12
Lanka Hospitals Corporation PLC	1.20	2.08
Asiri Hospitals	0.44	0.40
Ceylon Hospitals PLC (Durdans)	4.00	3.97

	Trailing Price Earnings Ratio
Nawaloka Hospitals PLC	7.86
Lanka Hospitals Corporation PLC	22.90
Asiri Hospitals	23.43
Ceylon Hospitals PLC (Durdans)	15.15

Short Term Gearing (Times)	2012/2013	2013/2014	6M Sept 2014
Nawaloka Hospitals PLC	0.20	0.17	0.11
Lanka Hospitals Corporation PLC	0.03	0.03	0.05
Asiri Hospitals	0.27	0.43	0.27
Ceylon Hospitals PLC (Durdans)	0.18	0.24	0.23

Operating Cash Flow Interest Coverage (Times)	2012/2013	2013/2014	6M Sept 2014
Nawaloka Hospitals PLC	4.41	3.74	0.29
Lanka Hospitals Corporation PLC	N/A	NA	N/A
Asiri Hospitals	1.61	2.49	2.75
Ceylon Hospitals PLC (Durdans)	2.89	2.27	4.21

Operating Cash Flow Debt Coverage (Times)	2012/2013	2013/2014	6M Sept 2014
Nawaloka Hospitals PLC	0.44	0.29	0.02
Lanka Hospitals Corporation PLC	5.24	5.75	2.19
Asiri Hospitals	0.20	0.19	9.23
Ceylon Hospitals PLC (Durdans)	0.43	0.32	0.47

Funds From Operations Debt Coverage (Times)	2012/2013	2013/2014	6M Sept 2014
Nawaloka Hospitals PLC	0.63	0.31	0.20
Lanka Hospitals Corporation PLC	5.27	6.00	2.99
Asiri Hospitals	0.35	0.29	0.32
Ceylon Hospitals PLC (Durdans)	0.59	0.53	0.59

Current Ratio (Times)	2012/2013	2013/2014	6M Sept 2014
Nawaloka Hospitals PLC	0.70	1.13	1.82
Lanka Hospitals Corporation PLC	3.11	2.44	2.27
Asiri Hospitals	0.50	0.49	0.72
Ceylon Hospitals PLC (Durdans)	0.74	0.72	0.74

Quick Ratio (Times)	2012/2013	2013/2014	6M Sept 2014
Nawaloka Hospitals PLC	0.48	0.86	1.52
Lanka Hospitals Corporation PLC	2.80	2.19	1.92
Asiri Hospitals	0.38	0.37	0.61
Ceylon Hospitals PLC (Durdans)	0.47	0.44	0.45

Cash and Cash equivalents to Short Term Debt (Times)	2012/2013	2013/2014	6M Sept 2014
Nawaloka Hospitals PLC	0.20	0.79	2.00
Lanka Hospitals Corporation PLC	9.06	7.88	4.72
Asiri Hospitals	0.08	0.08	0.11
Ceylon Hospitals PLC (Durdans)	0.17	0.07	0.14