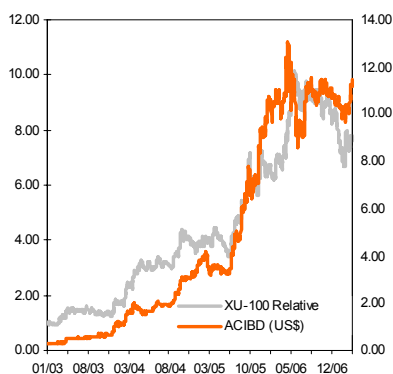


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April 3, 2007, Tuesday



	2005A	2006A	2007E	2008E	Value date: Apr 2, 2007
Net Sales (US\$m)	170.4	232.8	277.7	365.0	Current
EBITDA (US\$m)	30.0	37.7	58.3	73.0	Price (YTL)
EBITDA Margin	17.7%	16.2%	21.0%	20.0%	Price (US\$)
Net Income (US\$m)	13.9	5.0	19.9	25.5	Mcap (US\$m)
Sales Growth	57%	37%	19%	31%	Free float
EBITDA Growth	49%	26%	55%	25%	FF. Mcap
Net Income Growth	49%	-64%	298%	28%	2007YE Target
P/E	44.5	123.6	31.1	24.2	Price (YTL)*
EV/EBITDA	23.0	18.3	11.8	9.5	Price (US\$)
EV/Sales	4.0	3.0	2.5	1.9	Mcap (US\$m)
	1m	3m	6m	12m	US\$ upside
Relative Performance	-1%	-7%	-16%	15%	ACIBD.IS ACIBD.TI
Avg. Daily vol. (US\$m)	0.3	0.2	0.2	0.3	*At 2007YE. fwd. rate

Rating upgrade on the back of new investments

Expansion in Anatolia continues with Bodrum and Eskisehir hospitals... Last week, Acibadem announced two new hospital investments, one in Bodrum and one in Eskisehir, with respective bed capacities of 100 and 130. With the completion of these two new hospitals in 2009 the company's total bed capacity will reach 1,442 from 1,212 in 2008. Note that the company has three ongoing hospital investments (two in Istanbul and one Izmir) which have a total bed capacity of 460 and will be operational in 2008, while the current bed capacity is 752. Acibadem plans to continue opening hospitals in highly populated cities where per-capita income levels are higher compared than the average, such as Denizli, Konya, Adana, Antalya, Manisa, and Mersin. The company is also planning to build B and C class hospitals in order to gain penetration among the low-middle income population. Recall that all the company's hospitals are at present A+ type (not an official classification and refers to the highest quality and technologically equipped hospitals).

Revenues to double in the coming three years... We estimate US\$278mn revenues in 2007, with US\$58mn EBITDA, which implies respective growth rates of 19% and 55% YoY. For the next three years, we forecast 20% CAGR in the company's revenues, which will reach US\$484mn in 2010, with the support of the new hospital openings. EBITDA is estimated to rise by 19.5% CAGR during the same period, in our view, to reach US\$99mn in 2010. Note that, we did not include any other new hospital openings in our forecast horizon, other than the already disclosed ones, which we believe is a conservative approach.

At the same time, the stock has a defensive characteristic. The company is one of our defensive picks within our coverage universe. To illustrate, in May-June period, when the ISE dived more than 20%, Acibadem shares fell only 9% and outperformed the index by 25%. Hence we believe that Acibadem will be a resilient play in a volatile stock market, which may be likely in the upcoming period ahead of the presidential elections.

The government embarked on major reforms in social security system in line with the prudent fiscal policies. General Health Insurance (GHI) system passed through the parliament in May 2006, which was expected to come into effect by 2007. However, its enactment came to a halt following the verdict of the Constitutional Court, which annulled some articles of the reform bill in December 2006. Accordingly, the government has postponed the implementation of the Social Security Reform Law after general elections in November 2007. All in all, we expect the government to be committed to the social security reform, because the system's deficit is the major glitch in government's efforts to stick to fiscal discipline.

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You may find our research on Bloomberg page; EKSP

GHI addresses material changes in the system...GHI intends to include the entire population in the health insurance system; in return for a single model premium obligation. The government argues that "equality" will be ensured among those insured with existing institutions which have implementations of different health security standards. The new general health insurance will be based on an obligatory, premium-based system where the state will be responsible from the health insurance premiums of the poor to be met from the resources allocated for social benefits. With GHI base level coverage for every citizen, effective supervision of medical costs and historical medical records, gradual suspension of subsidies to public hospitals and greater administrative and financial autonomy to public hospitals will be granted which in turn switch demand in favor of the private hospitals due to more qualified services, which will become more affordable after reform.

Current prices offer a good entry point to enjoy both qualities of Acibadem. Following the recent investment announcements and 2006FY results, we have revisited our estimates and target value for the company. Our revised US\$800mn target offers 29% upside potential from current levels. We like Acibadem as the stock incorporates both credentials, namely strong growth and defensive qualities; a desired feature in the current environment, when a cautious stance might pay off ahead of the presidential elections.

FIGURE 1- DCF analysis for Acibadem

(US\$m)	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Total Sales	277.7	365.0	431.8	483.7	523.2	561.5	602.8	644.2	687.6	731.0
<i>Growth</i>	19%	31%	18%	12%	8%	7%	7%	7%	7%	6%
Gross Profit	58.3	76.6	90.7	101.6	109.9	117.9	126.6	135.3	144.4	153.5
Operating Profit	33.3	40.1	47.5	60.5	65.4	70.2	78.4	83.7	89.4	95.0
Depreciation	25.0	32.8	38.9	38.2	41.9	44.9	48.2	51.5	55.0	58.5
EBITDA	58.3	73.0	86.4	98.7	107.3	112.3	123.6	132.1	141.0	149.9
<i>EBITDA Margin</i>	21%	20%	20%	20%	20%	20%	21%	21%	21%	21%
Taxes (-)	5.0	6.4	7.9	10.5	11.6	12.6	14.2	15.4	16.5	17.7
Capital Expenditures (-)	45.0	35.0	20.0	20.0	10.0	10.0	10.0	10.0	10.0	10.0
Change in WC (-)	8.0	10.5	12.4	13.7	15.0	16.1	17.3	18.5	19.7	21.0
Free Cash Flow (FCF)	0.4	21.2	46.1	54.5	70.7	73.6	82.1	88.2	94.7	101.2
WACC	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%
PV of FCF	0.3	17.1	33.5	35.6	41.6	39.0	39.0	37.8	36.5	35.1
NPV	316									
Terminal Growth	4%									
Terminal Value	556									
Net Cash	-72									
Fair Value	800									
Current Mcap	622									
Upside Potential	29%									

Source: Ekspres Invest estimates

FIGURE 2 – IFRS Summary Income Statement and Forecasts (US\$m)

	2005A	2006A	2007E	2008E
Net Sales	170.4	232.8	277.7	365.0
COGS	-135.5	-190.4	-219.3	-288.3
Gross Profit	35.9	42.4	58.3	76.6
Operating Expenses	-22.8	-27.7	-25.0	-36.5
Operating Profit	13.0	14.8	33.3	40.1
Income from other operations	11.0	7.5	0.0	0.0
Expenses from other operations	-4.2	-6.0	-1.5	-1.2
Financial Expenses (net)	-3.6	-10.1	-6.9	-6.8
Profit Before Tax	16.3	6.2	24.9	32.1
Minority Interests	-1.1	-0.6	-0.1	-0.2
Tax	-1.4	-0.6	-5.0	-6.4
Net Income	13.9	5.0	19.9	25.5

FIGURE 3 – IFRS Summary Balance Sheet and Forecasts (US\$m)

	2005A	2006A	2007E	2008E
CURRENT ASSETS	39.3	51.6	67.5	81.6
Liquid Assets	1.6	3.4	10.0	15.0
Marketable Securities	4.4	3.5	5.0	6.0
Short-Term Trade Receivables	17.5	23.5	22.2	29.2
Receivables from related parties and other	7.6	8.8	12.0	10.8
Other Receivables	0.1	0.0	0.0	0.0
Inventories	4.2	6.2	7.3	9.6
Other Current Assets	3.9	6.2	11.0	11.0
LONG TERM ASSETS	158.4	180.3	190.5	212.0
Other Receivables	0.0	0.1	0.0	0.0
Financial Assets	0.0	0.0	0.0	0.0
Tangible Fixed Assets	147.2	169.6	175.0	195.0
Intangible Fixed Assets	6.7	5.5	5.1	5.0
Other Long-Term Assets	4.5	0.0	10.4	12.0
TOTAL ASSETS	197.7	232.0	258.0	293.6
SHORT TERM LIABILITIES	56.6	60.3	68.0	89.3
Short-Term Financial Loans	4.8	7.8	12.0	12.0
Short Term Portion of Long-Term Loans	4.9	6.2	10.0	8.0
Other Short-Term Financial Liabilities	0.4	0.0	0.0	0.0
Short-Term Trade Payables	22.7	27.0	30.0	50.8
Short-Term Payables to Related Parties	4.2	3.9	6.1	9.3
Short-Term Advances Received	1.3	0.6	1.9	2.0
Short-Term Provisions	3.8	6.8	6.9	7.2
Other Short-Term Liabilities	14.4	8.0	1.1	0.0
LONG TERM LIABILITIES	43.2	77.2	61.0	44.0
Long-Term Financial Loans	35.5	65.1	51.9	35.0
Trade Payables	0.6	1.0	2.1	1.0
Provisions	4.9	5.1	5.0	6.0
Deferred Tax Liabilities	1.8	2.3	2.0	2.0
Other Long-Term Liabilities	0.3	3.8	0.0	0.0
MINORITY INTERESTS	0.0	8.9	9.9	13.0
SHAREHOLDERS EQUITY	88.1	85.6	119.1	147.3
TOTAL LIA. AND S.HOLDERS EQUITY	197.7	232.0	258.0	293.6

Source: Company and Ekspres Invest estimates

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