

### A healthy investment

#### ACIBADEM HEALTHCARE GROUP

- ✓ is the leader of private healthcare sector in Istanbul with a 9.6% share of the outpatient market and 8.2% share of the inpatient market as of 2005.
- ✓ currently operates with six general hospitals, six medical centers, two outpatient clinics, one ophthalmology center and two laboratory branches.
- ✓ has 713 beds in its six hospitals but additional 980 beds will be available with the operation of seven new hospitals in the following three years.
- ✓ Signing an exclusivity agreement with Abraaj Capital Limited, AHG may focus on an international branch out.
- ✓ General Health Insurance, which is expected to come into effect in early 2008, is estimated to increase the business volume of private hospitals.
- ✓ has a short F/X position of US\$ 79 mn as of 1Q2007-end, making AHG vulnerable to F/X fluctuations.
- ✓ We value Acibadem at USD 1,156 million and RECOMMEND BUY.

Stock Data		
Ticker	ACIBD.IS	
Sector	Pharmaceutical & Health	
	TRY	USD
Close*	8,90	7,11
P/BV	7,13	
Market Cap	890,000,000	707,191,061
Target Market Cap	1,454,248,000	1,156,000,000

\*As of /08/2007

Shareholder Structure (%)	
Mr. Mehmet Ali Aydinlar	34,99
Ms. Seher Aydinlar	4,25
Original Founders	24,58
Free Float	36,18

(TRY) Financial Data			
	20071Q	2006	2005
Capital	100,000,000	54,000,346	54,000,346
Net Profit	4,768,146	7,244,721	18,590,470

Forecasts and Ratios				
	2007 E	2008 E	2009 E	2010 E
Revenue (USD)	314	429	642	7326
EBITDA (USD m)	53	73	109	1244
Net Inc. (USD m)	28	42	48	50
EPS (USD)	0,40	0,60	0,69	0,72
P/E (x)	24,0	15,3	12,6	11,2
EV/EBITDA (x)	13,78	9,65	6,02	4,95

#### Market Shares of Hospitals in Istanbul

	2005 Outpatients	Inpatients
Public	76,6	58,8
Private	23,4	41,2
Acibadem	9,6	8,2
American	2,1	2,7
Florence	1,6	4,7
Memorial	1,7	2,8
Universal	1,2	2
Others	83,8	79,6

## VALUATIONS

We use an equally-weighted average of 2008E EV/EBITDA multiples of global peers and DCF analysis to reach a \$ 1,157 m target value for Acibadem. Our target Mcap offers 61,5 % upside potential. In spite of the fact that the Mcap of the company reached from \$ 30 m to \$ 700 in four years, we believe that Acibadem is one of the most promising stocks both in the domestic and global healthcare sector. Acibadem trades at 13.5x 2007E and 9x 2008E EV/EBITDA lower than the global peers' average, which stands at 17x.

**Figure 1: Valuation Summary**

Method	Fair Value (\$m)	Weight (%)	Contribution (\$m)
DCF analysis (\$m)	1,234	75 %	925,5
Global Peer Comparison	925,39	25 %	231,3
Total (\$m)			1,157
Market cap (\$m)			712
<b>Upside</b>			<b>61,5 %</b>

In our DCF analysis we use a 7.5 % risk free rate, a 6 % equity risk premium, a 8.2 % cost of debt and a 3% terminal growth. Our 7.5 % risk free rate is based on the average yield on 30-year sovereign Eurobonds for the past three years.

**Figure 2: International Peer Multiples**

Companies	Country	EV/SALES		EV/EBITDA	
		2008	2009	2008	2009
Athens Medical	Greece	1,82	1,68	9,98	9,23
IASO SA	Greece	3,26	2,77	12,43	10,11
Euromedica SA	Greece	2,02	1,82	10,05	8,76
Generalde De Sante	France	0,99	0,94	7,83	7,25
Bangkok Dusit	Thailand	2,54	2,13	11,73	10,01
Rhoen-Klinikum AG	Germany	1,20	1,13	9,29	8,39
Care UK	Great Britain	1,52	1,27	9,88	8,23
Clinica Baviera	Spain	3,97	3,30	11,57	9,42
Apollo Hospitals	India	2,50	2,09	15,14	12,26
Parkway Holdings	Singapore	3,48	3,25	16,69	14,63
Geo. Mean		2,13	1,88	11,19	9,64
Acibadem	Turkey	1,64662	1,02725	9,65	6,02

	EV/SALES		EV/EBITDA	
	2008	2009	2008	2009
Avg. Multiples of peer groups	2,13	1,88	11,19	9,64
Est. Enterprise value	914	1206	816	1052
Net Debt	71,8	71,8	71,8	71,8
Weight (%)	25	25	25	25
Est. Market Value	210,55	283,58	186,16	245,10
<b>Avr.Est.M.Value for Acibadem</b>	<b>925,39</b>			

### Risks

The key downside risks to our Buy recommendation are

- 1) There are many new hospitals planned to operate especially in 2008 and 2009. Delay or cancellations in these investment projects may influence the share performance adversely.
- 2) In case of further delays in General Health Insurance, private hospitals and also Acibadem will be affected negatively.
- 3) The company's short F/X position is nearly \$ 79 mn as of 1Q2007, which makes Acibadem vulnerable to probable F/X fluctuations. Note that the company has an ability to reflect to this its prices.
- 4) Providing that the deal, which was mandated to Abraaj Group, results in a lower position than the market capitalization, the shares might depress in the short term.

**Figure 3: Acibadem DCF Valuation****Assumptions**

1. Expected General Health Insurance will come into effect in the early 2008.
2. The ongoing investment projects will be completed without any delays.
3. Moreover, the additional 100-bed capacity will be realized every year.
4. No solemn F/X fluctuation is expected especially in the investment phase.

We predict that the revenue and EBITDA of AHG will grow at a 20% CAGR. Our DCF based valuation offers a fair value of \$ 1,234 mn for Acibadem Saglik

DCF MODEL (\$ mn)	2006	2007 E	2008 E	2009 E	2010 E	2011 E	2012 E	2013 E
<b>Revenues</b>	<b>234</b>	<b>314,3</b>	<b>429</b>	<b>642,5</b>	<b>732</b>	<b>768,6</b>	<b>807</b>	<b>847,35</b>
Growth		%34	%37	%50	%14	%5	%5	%5
COGS	190	254,58	348	520,42	592,9	622,5	653,7	686,35
<b>Gross Profit</b>	<b>44,0</b>	<b>59,7</b>	<b>81,6</b>	<b>122,1</b>	<b>139,1</b>	<b>146,0</b>	<b>153,3</b>	<b>161,0</b>
Gross Mar.	18,8	19	19	19	19	19	19	19
Operating Costs	27,5	36,94	50,5	75,507	86,02	90,32	94,84	99,582
<b>Operating Profit</b>	<b>16,5</b>	<b>22,78</b>	<b>31,1</b>	<b>46,567</b>	<b>53,05</b>	<b>55,7</b>	<b>58,49</b>	<b>61,415</b>
Tax								
Depreciation	22,8	30,6	41,8	62,602	71,32	74,89	78,63	82,562
W/C	1,8	2,42	3,3	4,9423	5,63	5,912	6,208	6,5181
Capex	49,6	67	45	35	15	15	15	15
<b>EBITDA</b>	<b>39,3</b>	<b>53,4</b>	<b>73</b>	<b>109,17</b>	<b>124,4</b>	<b>130,6</b>	<b>137,1</b>	<b>143,98</b>
EBITDA Mar.	16,8	17	17	16,99	16,99	16,99	16,99	16,99
Operating FCF	-12	-15,63	24,7	69,227	103,7	109,7	115,9	122,46
Discount Factor		1	1,1	1,2175	1,343	1,482	1,636	1,8047
PV of FCF		-16	22,4	56,86	77,22	73,99	70,87	67,857
NPV	353,2							
WACC	10,34							
Terminal Growth Rate	3 %							
Terminal Value	952							
Net Debt	71,8							
<b>Acibadem Fair Value</b>	<b>1.234</b>							
Acibadem Mcap	699,5							
<b>Upside Potential</b>		<b>76,35 %</b>						

## THE COMPANY

### Acibadem's Place in the Healthcare Sector

**Acibadem Healthcare Group is the leader in the private sector...**

Turkish private healthcare sector concentrated in Istanbul on account of the population and socio-economic structure. According to the Ministry of Health 2005 publications; while only 6% of the whole Turkish population selects private providers for outpatient services, those in Istanbul is around 23%. Private hospitals were preferred by 41% of inpatients and 54% of deliveries in Istanbul.

Acibadem Healthcare Group, which was founded in 1991, is the leader in Istanbul with a 9.6% market share in outpatient and a 8.2% in inpatient services provided by healthcare institutions.

Either the ongoing new investment projects or International Hospital taken over by the Group are the prominent factors to protect its leadership position in the private market.

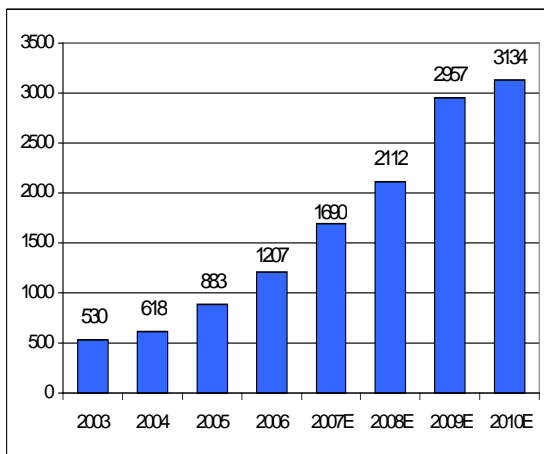
The purchase of the International Hospital has had an impact of 1.2% and 1.7% on outpatients and inpatients, respectively.

Having completed the ongoing investments, company has turned to new projects outside Istanbul such as Bursa and Kocaeli.

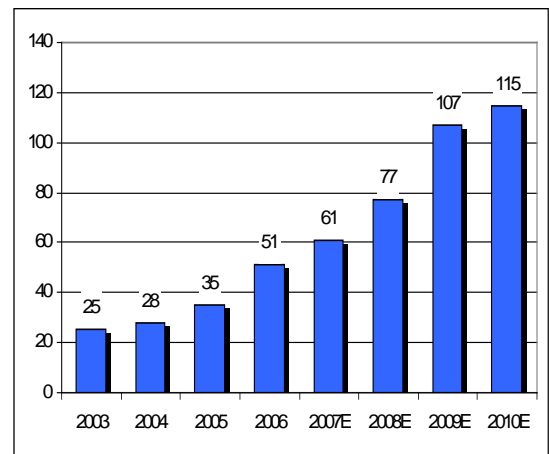
Coming into service with Bursa Hospital, Beylikduzu Medical Center, Kocaeli Hospital and Uludag outpatientclinic, Acibadem Healthcare Group increased its current bed capacity to 713 by 41% in 2006. Moreover, the current numeric capacity of operating rooms reached 37 increasing by 50%.

Thereby, in the last five years, inpatient, outpatient and operations figures annually expanded 23%, 22% and 25% respectively.

**Figure 4: No of Inpatients (000)**



**Figure 5: No of Outpatients (000)**



### Hospitals

1. **Acibadem Hospital Kadikoy**, which was established in 1991 and renovated in 1998, has a bed capacity of 150 with a closed area of 16,000 m<sup>2</sup>.
2. **Acibadem Hospital Bakirkoy**, which is one of the largest general hospitals on the European side of Istanbul, has a bed capacity of 130 with a closed area of 17,500 m<sup>2</sup>.
3. **Acibadem Hospital Kozyatagi**, which was opened as the third hospital of AHG, has bed capacity of 150 with a closed area of 13,000 m<sup>2</sup>.
4. **Acibadem Hospital Bursa**, which is the first hospital of the Group outside of Istanbul, has a 150-bed capacity of 90 of which are inpatient rooms and 60 of which are intensive care beds with a closed area of 13,000 m<sup>2</sup>.
5. **Acibadem Hospital Kocaeli**, which was opened in November 2006, is the 6<sup>th</sup> hospital of AHG. It operates in 6,000 m<sup>2</sup>-closed area with 65 beds.
6. **International Hospital**, which was opened in 1989, is the first private hospital using modern technologies in Turkey. The bed capacity is 134.

Figure 6: HOSPITALS

CURRENT HOSPITALS	BED CAPACITIES	CLOSED AREA (M <sup>2</sup> )
Acibadem Hospital	150	16.000
Acibadem Bakirkoy	130	17.500
Acibadem Kozyatagi	82	13.000
International Hospital	136	
Acibadem Bursa	150	30.000
Acibadem Kocaeli	65	6.000
<b>TOTAL</b>	<b>713</b>	<b>82.500</b>

### Ambulatory Treatment Centers

AHG has five medical centers four of which are located in Istanbul and one of which is located in Bursa. It has also one ophthalmology center and two outpatient clinics.

1. Acibadem Beylikduzu Medical Center (ISTANBUL)
2. Acibadem Bagdat Medical Center (ISTANBUL)
3. Acibadem Ophthalmology Center (ISTANBUL)
4. Acibadem Gokturk Medical Center (ISTANBUL)
5. Acibadem Etiler Medical Center (ISTANBUL)
6. International Etiler Medical Center (ISTANBUL)
7. Acibadem Soyak Outpatient Clinic (ISTANBUL)
8. Acibadem Uludag Outpatient Clinic (BURSA)

**Figure 7: THE ONGOING INVESTMENTS**

ANNOUNCED NEW HOSPITAL PROJECTS	BED CAPACITIES	CLOSED AREA (M <sup>2</sup> )	ESTIMATED COMPLETION DATE	ESIMATED COST (USD mn)
Acibadem Maslak	180	35.000	2008 October	<b>45-50</b>
Acibadem Izmir	150	15.000	2009 August	<b>30</b>
Acibadem Fulya	130	20.000	2008 October	<b>25</b>
Acibadem Eskisehir	130	18.000	2009 January	<b>17</b>
Acibadem Bodrum	100	12.000	2009 July	<b>12</b>
Acibadem Adana	170	18.000	2008 July	<b>30</b>
Acibadem Kayseri	120	15.800	2008 July	<b>30</b>
<b>TOTAL</b>	<b>980</b>	<b>133.800</b>		

The ongoing investment projects of AHG will reach 1,691 by increasing 980 beds in the following three years. 310, 420 and 100 beds are expected to open in the midst of 2008, the first quarter of 2009 and the first quarter of 2010, respectively.

We predict that completing these projects, AHG will get a revenue of 450, 673 and 767 in 2008, 2009 and 2010, respectively.

**Figure 8: Bed Capacities (as of year-ends)**

Revenue and Margin Forecasts	2005	2006	2007E	2008E	2009E	2010E
No of Inpatients	34,8	51,2	57,4	82,4	128	136,3
No of Outpatients	882,9	1207	1304	1871	2913	3096
Av.Revenue Per Inpatient (USD)	2570	2417	2902	4135	3025	2989
Av.Revenue Per Outpatient (USD)	91,5	90,9	113,3	161,4	118,1	116,7
ARPP (USD)	185,6	185,6	230,9	328,9	240,6	237,8
Revenues (USD mn)	170,4	233,5	314,3	642,5	732	768,6
Growth %	48,5	37,03	34,60	104,42	13,92	5,00
Gross Profit (USD mn)	35,9	44	59,7	81,6	122	139,1
Operating Profit (USD mn)	13,1	16,5	22,78	31,1	45,6	53,05
<b>EBITDA (USD mn)</b>	<b>30,1</b>	<b>39,3</b>	<b>53,4</b>	<b>73</b>	<b>109</b>	<b>124,4</b>

Our estimation, number of inpatient figures will go up from 51,159 to 126,448 that of outpatient will raise from 1,207 k to 3,447 k at the end of 2010, which accounts for 30% and 25,4% CAGR, respectively. Average revenue per person (ARPP) is predicted to go up from \$ 186 to \$ 214 in 2010.

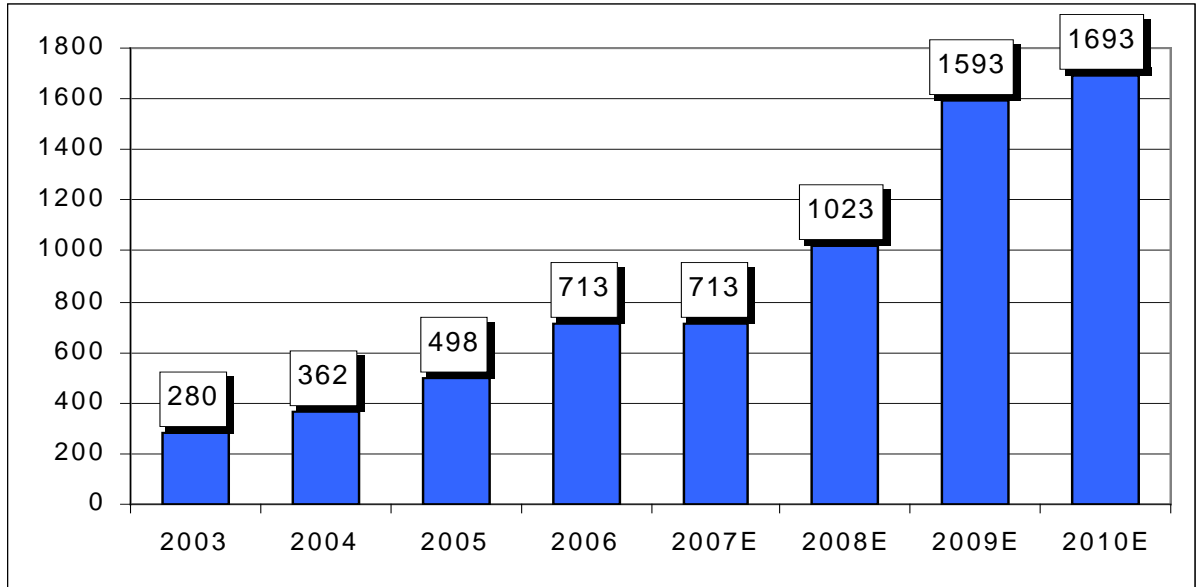
**Figure 9: BREAKDOWN OF COGS**

COGS %	
PHYSICIAN	42
STAFF	28
EQUIPMENT	20
OVERHEAD	10

The breakdown of the COGS is doctor payments, staff salaries, equipment costs and overhead with 42%, 28%, 20% and 10%, respectively.

The doctor discharges are paid after insurance collections, which is a considerable cash flow advantage for the company.

**FIGURE 10: BED CAPACITIES**

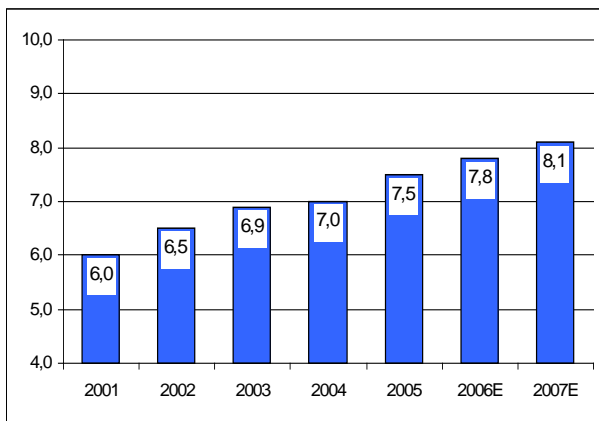


**SECTOR OUTLOOK**

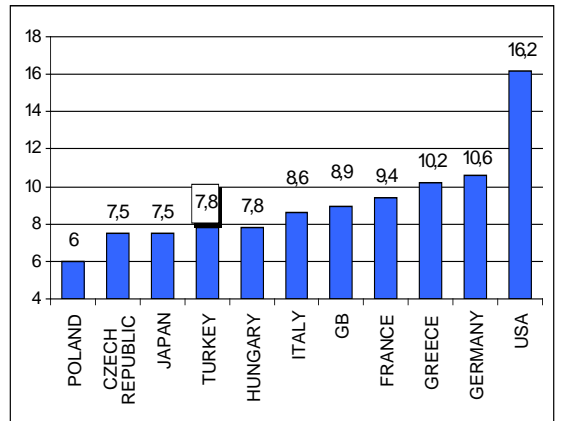
Though the growth of Turkish Healthcare Sector is underway, it has not kept up with the world average figures. The huge capacity increase was seen especially in the past years. This trend is expected to go on in the following years.

General sector indicators in Turkey such as healthcare expenditure, bed figures, physicians and nurses per capita signaled that healthcare sector promising due to its potential for development and growth. The existence of present foreign interests in the sector will be underway in the long term.

**FIGURE 11: HEALTHCARE SPENDING IN TURKEY AS % OF GDP**



**FIGURE 12: HEALTHCARE SPENDING IN 2006 AS % OF GDP**

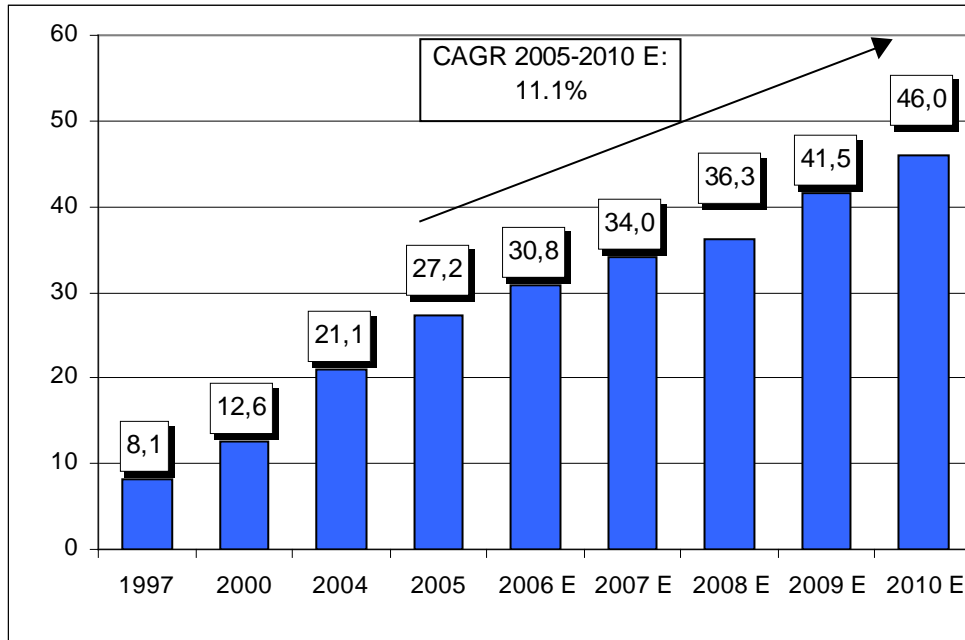


Healthcare spending is expected to more rapidly grow than GDP as Turkish spending will converge with the rest of Europe.

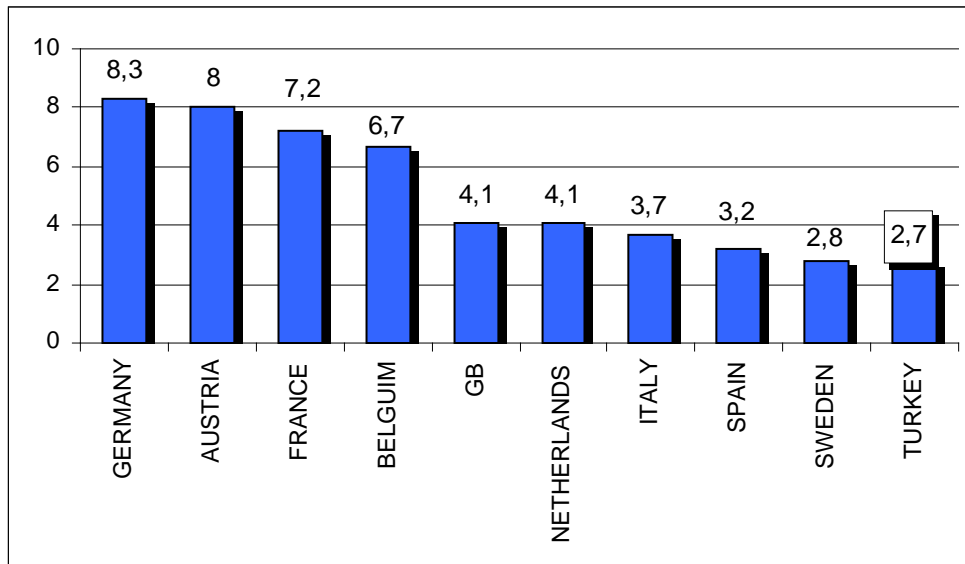
**HEALTHCARE SPENDING PROJECTIONS IN TURKEY**

In Turkey, the healthcare spending which realized a CAGR of 14.6 % between 1997-2004 is estimated to be 11.1% in the term 2005-2010.

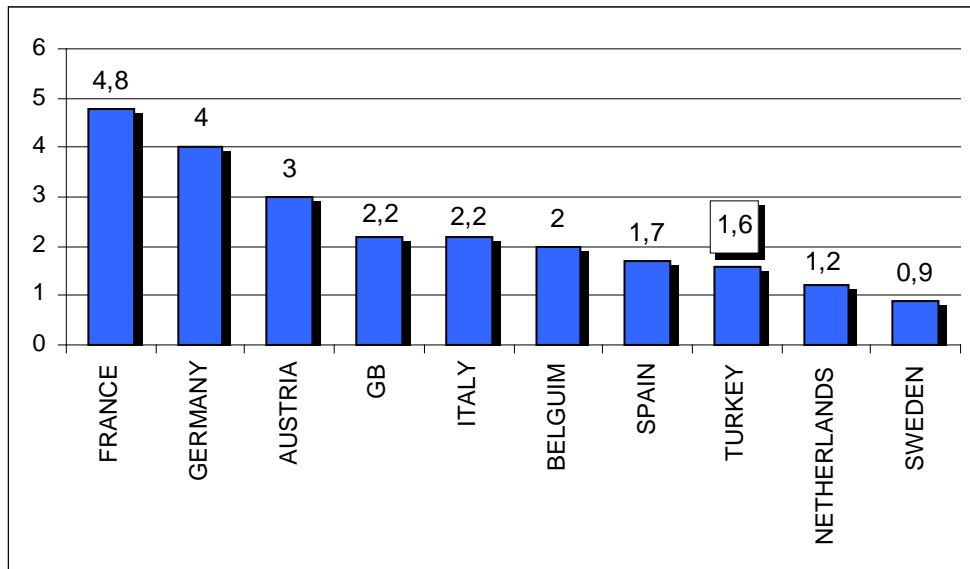
**FIGURE 13:**



**FIGURE 14: NUMBER OF BEDS PER 1000 POPULATION BY COUNTRY, 2006**



The currently low per capita hospital and bed numbers compared to industrialized countries, are expected to go up.

**FIGURE 15:NUMBER OF HOSPITALS PER 100 k POPULATION BY COUNTRY, 2006**

## CONCLUSION

We think Turkish Healthcare Sector is at the beginning of a growth trend and will grow at a faster pace by the introduction of General Healthcare Insurance system, which is estimated to influence the private sector positively.

Continuation of political, economic stability and the ongoing economic development will help to increase healthcare expenditure per capita.

We value AHG at USD 1.2 billion and recommend buy, which is healthcare leader and will strengthen its market share with the ongoing 7 hospital projects.

Providing that the mandate given to Abraj Group is realized positively, current Mcap of company may go up in a short term.

## FINANCIALS

**FIGURE 16: BALANCE SHEET (\$m)**

Balance sheet (\$m)	2005	2006	2007 E	2008 E	2009 E	2010 E
<b>ASSETS</b>						
Cash and marketable securities	5,85	6,81	7,76	9,00	11,43	11,05
Receivables	24,89	31,53	35,94	41,68	52,93	51,18
Inventories	4,00	5,97	6,81	7,90	10,03	9,69
Other current Assets	2,74	4,86	5,54	6,43	8,16	7,89
Property, Plant&Equipment	145,93	165,28	188,42	218,51	277,47	268,30
Financial Assets	0,61	2,36	2,69	3,12	3,96	3,83
Intangible Assets	5,11	4,10	5,71	7,00	7,50	8,00
Other Long Term Assets	1,48	1,32	1,50	1,74	2,22	2,14
Deferred taxes	4,89	6,18	6,00	6,59	9,75	8,68
<b>TOTAL ASSETS</b>	<b>195,50</b>	<b>228,40</b>	<b>260,38</b>	<b>301,97</b>	<b>383,44</b>	<b>370,76</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Short-term Financial Loans	9,61	13,54	15,44	17,90	22,73	21,98
Payables	29,48	36,83	41,98	48,69	61,82	59,78
Other current Liabilities	0,78	3,72	4,24	4,92	6,25	6,04
Other Short Term Liabilities	14,15	6,39	7,28	8,45	10,73	10,37
Long-term Financial Loans	36,15	68,19	77,74	90,16	114,49	110,70
Deferred taxes	1,78	2,26	2,58	2,99	3,80	3,67
Provisions	4,89	4,93	5,62	6,52	8,28	8,00
Other Long Term Liabilities	0,00	0,00	0,50	0,58	1,57	1,09
Minority interest	9,63	8,68	9,40	10,90	13,00	13,00
Total shareholders' equity	89,04	83,85	95,60	110,86	140,78	136,12

**FIGURE 17: INCOME STATEMENT (\$m)**

	2005	2006	2007 E	2008 E	2009 E	2010 E
<b>Revenues</b>	170	234	314,3	429,45	642,50	731,96
COGS less depreciation	152,7	190	254,583	347,855	520,42	592,88
<b>Gross Profit</b>	17,3	44	59,7	81,6	122,1	139,1
Gross Margin (%)						
Operating Expenses	22,66	27,5	36,9	50,5	75,5	86,0
<b>EBITDA</b>	32,26	39,3	53,4	73,0	109,2	124,4
EBITDA margin (%)	18,98	16,79	16,99	16,99	16,99	16,99
Depreciation	19,3	22,8	30,6	41,8	62,6	71,3
<b>EBIT</b>	12,96	14,72	22,8	31,1	46,6	53,1
Financial Income	-3,5	-10	-5,0	-8,0	-10,0	-15,0
Other Income	6,81	1,46	5,0	8,0	10,0	15,0
Profit before tax	16,27	6,18	22,78	31,13	46,57	53,05
Taxes	1,33	0,59	2,30	3,10	4,60	5,30
<b>Net Income</b>	14,94	5,59	20,48	28,03	41,97	47,75
Net Margin (%)						

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