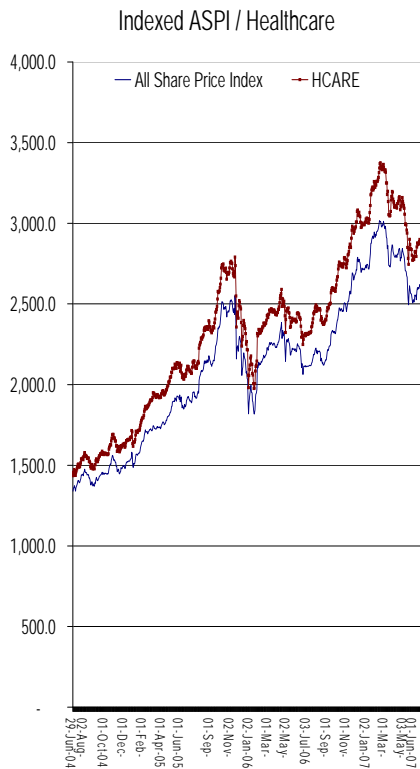


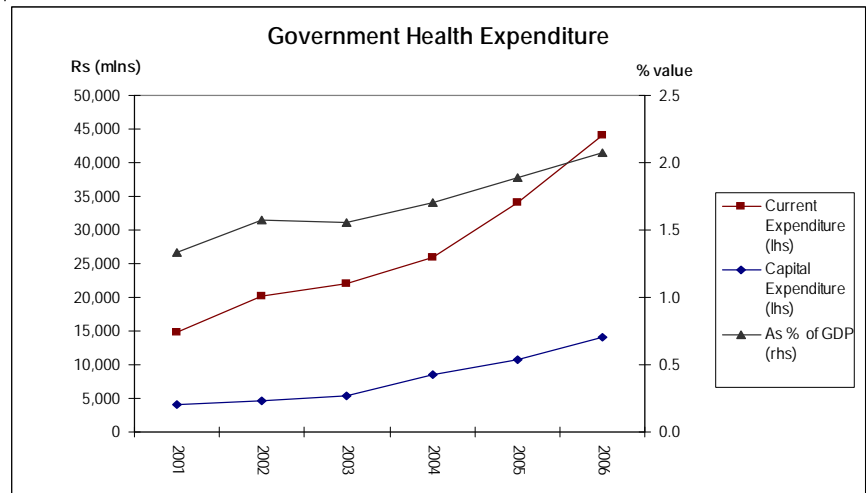


# Sri Lanka : Healthcare Sector



## Market overview

The State dominates the provision of health services in Sri Lanka thanks to the long standing policy on providing free medical care. This is reflected in the State's share of over 80% of total inpatient volumes.



Source: Central Bank Annual Reports

Total government spend on the healthcare sector has approximately grown at an average of 28% over the three years upto 2006 to stand at 2 per cent of GDP. This is an acceleration over the average growth of 17% over the decade upto 2006.

Public health spend as % of GDP (2003)	
India	1.2
Pakistan	0.7
Bangladesh	1.1
Indonesia	1.1
Malaysia	2.2

Source: UNDP

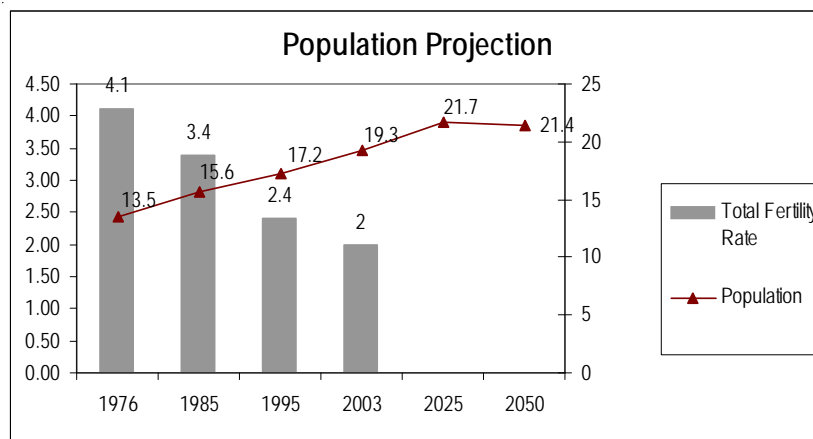
Sri Lankan Government health spending as a proportion of GDP is marginally high when compared with countries in the region. However the bulk of the spending increase is on recurrent items. Real growth in health expenditure when adjusted for inflation comes to a more modest 7% over the decade upto 2006.

Private involvement in the Sri Lankan health care sector began in the 1980s when state educated and employed doctors were allowed to consult privately on their own time. This practice continues today with many specialists starting their careers in the state sector and then building a private practice while maintaining their commitments to the state hospitals. The entry of the private sector essentially released the vast amount of knowledge within the state sector by tapping into both doctors and technicians trained by the state. Private investment is currently centred around curative services with most preventive medical care provided by the state.

Despite the government sector having an 80% share we estimate the private hospital sector is now a Rs.20 billion industry.

### Demographics will increase long term demand

Fertility decline has been the main contributory factor in the reduction of the population growth rate along with the decades long decline in the Crude Death Rate.



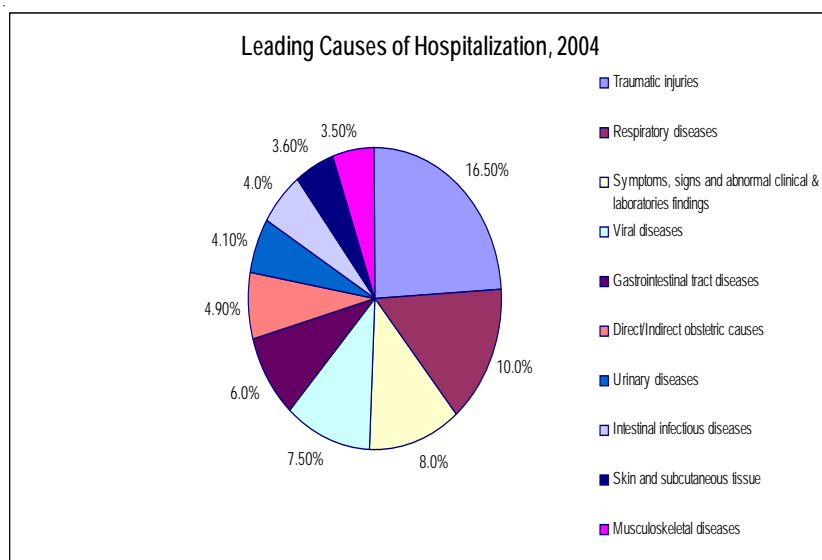
Source: Department of Health Services and Department of Statistics

The Sri Lankan population is projected to increase from the current 19.9 million to 21 million by the year 2020 and should stabilize at this level by the middle of the next century. According to these projections, by 2020 Sri Lanka will have the fastest growing aging population in South Asia.

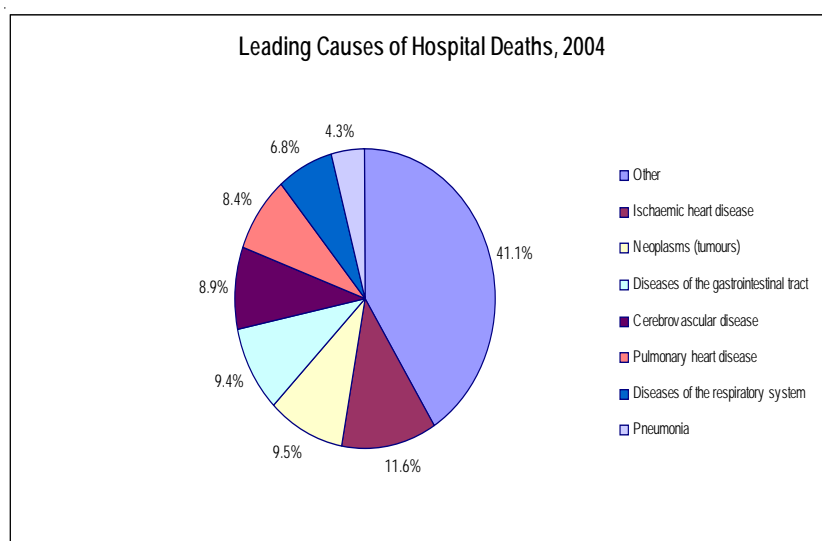
The 60 years and older proportion of the population is expected to increase at a faster pace than the broader population growth rates. This increase will be faster among women since they tend to live longer, and there should be an increasing demand for healthcare services targeted towards the elderly in the coming decades. People over 65 are estimated to use twice as much health resources as the generation before them. Diseases like cancer, cardiovascular ailments, neurological and rheumatic diseases will require greater spending on healthcare as well as a qualitative change in approach.

## Lifestyle diseases

Lifestyle diseases like cardiovascular diseases, cancer, type 2 diabetes and nephritis have all increasingly become commonplace in the upper classes of middle-income countries like Sri Lanka.



Source: Medical Statistics Division



Source: Medical Statistics Division

The above charts give the leading causes for hospitalization and for hospital deaths in the State sector. Although traumatic injuries were the primary cause for hospitalization it should be noted that many private hospitals do not deal with these cases due to statutory and liability issues.

Statistically South Asians have shown higher risk of coronary heart disease compared with people from other regions. Tobacco consumption, high blood pressure and high cholesterol intake are all cardiac risk factors increasingly prevalent in the higher income segment of a country like Sri Lanka.

Oncology treatment facilities have always required heavy investment relative to other fields. Cancer surgery requires specialized operating rooms. Complex chemotherapy can only be administered in the inpatient oncology units by specifically trained oncology nurses. Outpatient treatment is also specialized with radiation and chemotherapy provided either in hospital-based outpatient facilities or in associated physician- operated facilities. Private hospitals have yet to make serious investments in this area but demand will continue to grow. Cancer now occurs at younger ages and many cancers are curable and others manageable as chronic illnesses over long time frames

Only eight to ten per cent of diabetics need hospitalization, thus inviting little attention from investors in establishing diabetes hospitals. The rest can be treated on an OPD basis.

### **Provincial health patterns**

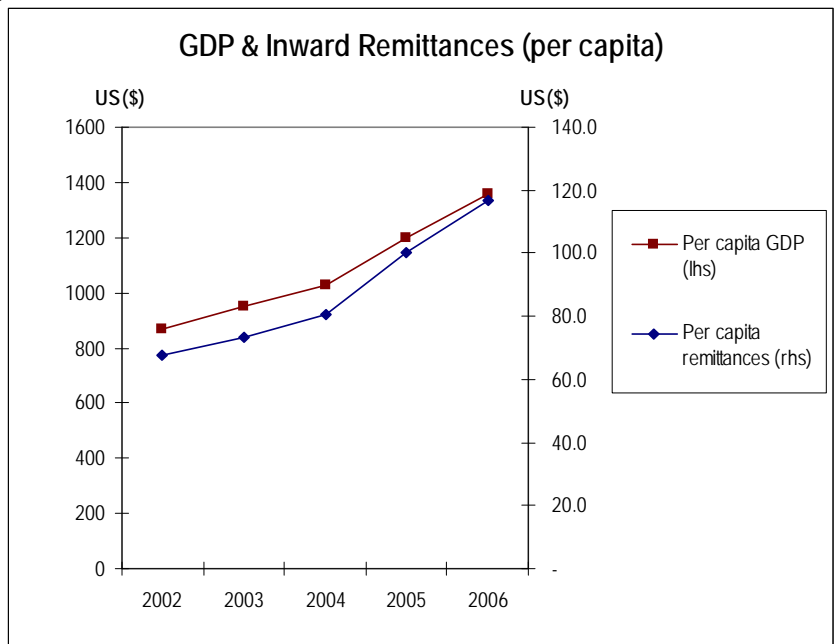
A disease profile of the provinces (as shown in the appendix according to state medical data) adds further detail to health demand trends.

The largest specialties required are those for obstetrics and gynecology, respiratory ailments, circulatory ailments and infectious diseases. Hospital mortality rates indicate that circulatory and respiratory ailments are the most critical.

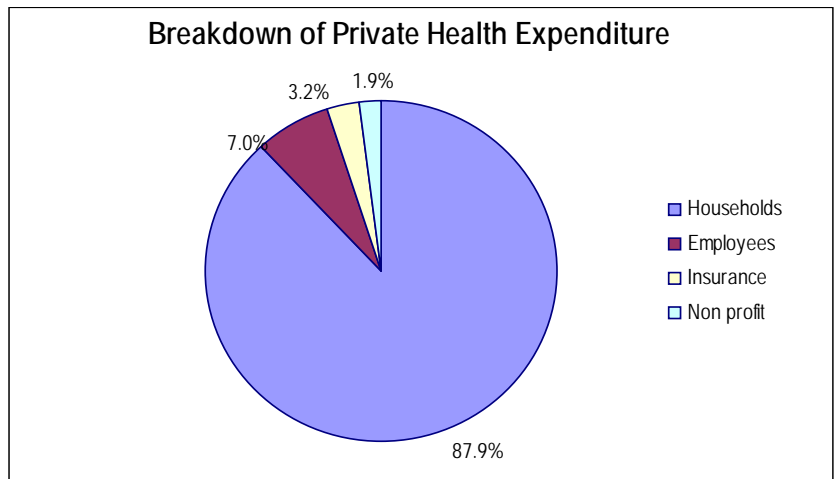
The Central Bank statistics for illness by province indicate that the Western, North Western and Uva Provinces have the greatest demand. Comparing this with income and healthcare expenditure, currently the largest healthcare markets are the Western and North Western Provinces. Much of the demand in the Western province could be due to the rest of the country receiving care from what still appears to be a centralized state healthcare system.

Looking at the aging demographic on a provincial level the largest proportion of over 55 year olds are in the Northern and the Western Provinces, with both their shares of 17.2% over the national average of 15.3%. Approximately 40% of this older population are in ill health.

## Health Spending Patterns



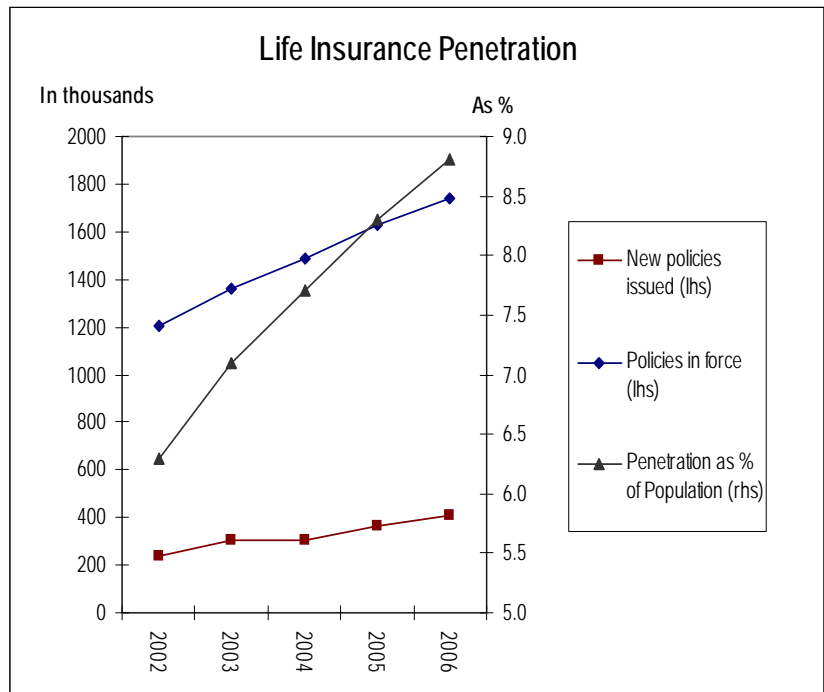
Source: Central Bank Annual Reports



Source: Sri Lanka National Health Accounts 2001-2002

The largest source of healthcare payment are households who pay out-of-pocket. Increasing GDP trends as well as the increasing amount of inward remittances mean that a growing share of the population will be able to afford private healthcare.

Work-place health insurance is the largest source of third party payments for hospitals. Many employers have opted to bear the medical expenses of their employees either through insurance policies or through internally contributed funds. The ETF also provides funds to its members for medical care.



Source: Insurance Board of Sri Lanka

The rising proportion of the population taking on life insurance (which is closely tied with health insurance) indicates that the share of payments to private healthcare made by insurance will increase over time.

### State and Private Infrastructure

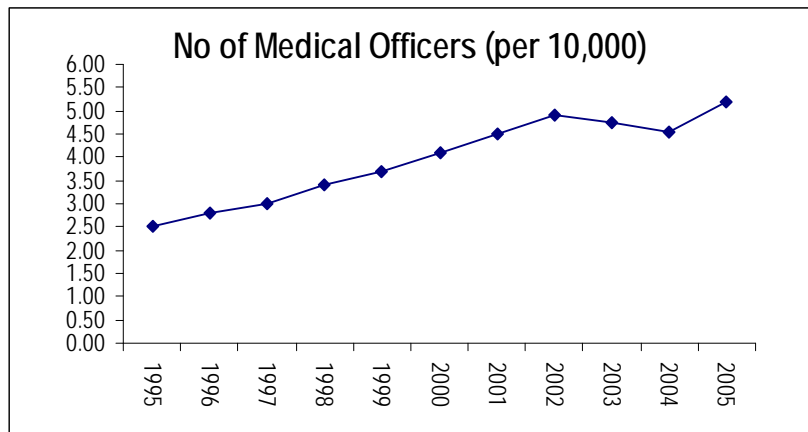
As at 2006, according to the Central Bank there were 61,835 beds in the state medical sector while there were over 9,000 provided by the private sector. Private sector bed capacity has grown at 14% over the last decade from the estimated 2,500 beds in 1996. Current demand for private sector beds has been estimated by the Ministry of Health at well over 15,000. WHO recommends 5 beds for every 1,000 persons and Sri Lanka falls short of that standard with a required capacity of 100,000 beds.

There were 9,648 qualified doctors in the state health sector, which averages out to one doctor for every 2,061 people. WHO standards recommend one doctor for every 600 persons, to ensure adequate provision of healthcare. Based on these standards Sri Lanka requires at least 33,000 doctors.

SL has only 4.85 doctors for every 10,000 people as compared to the 20-30 doctors per 10,000 people in the developed countries.

Doctors per 10,000 people (2004)	
India	6.0
Pakistan	7.4
Bangladesh	2.6
Indonesia	1.3
Malaysia	7.0

Source: UNDP



Source: Medical Statistics Division

While the proportion of medical officers has grown consistently over the last decade, it appears clear that at these rates Sri Lanka is at least two decades away from matching the doctor/population rates of the developed countries.

An estimated 4 million in-patients are treated in public and private sector health care facilities in the country annually. With its policy of free health services and extensive geographical spread of hospital facilities, the public sector accounts for approximately 80% of the total in-patient market.

Out-patient participation by the private sector would follow a similar distribution, mainly due to the presence of a state sponsored network of general practitioners across the country. The channeling services offered by private healthcare establishments in Colombo, can currently accommodate around 5,000 patients each day.

Private hospitals		2001	2002
Hospital beds		961	974
No of patients			
	Inpatients	46,897	51,418
	Outpatients	349,436	388,069
Doctors		711	749
	Permanent	107	86
	Visiting	511	583
	Part time	93	80

Govt hospitals		2001	2002
Hospital beds		58,833	59,781
No of patients			
	Inpatients	4,092,000	4,032,000
	Outpatients	43,350,000	45,681,000
No of doctors		7,235	7,459

Source: Central Bank Annual Reports

The above figures from past Central Bank Annual Reports (private hospital surveys have since been discontinued) indicate the relative size of the private and public sectors. While we assume that the private sector share of the inpatient and outpatient markets have grown data on the private sector is not given by the Ministry of Health.

## Healthcare business model

Health revenue is stable and non-cyclical - irrespective of the state of the economy. The demand for healthcare is and will continue to be constant and growing.

The quoted hospital companies are all tertiary care general hospitals and are concentrated in Colombo, while serving the catchment areas of the Gampaha and Kalutara Districts. Typical occupancies are well over 90 per cent with existing capacities fully utilized.

The current business model for a typical private hospital is heavily dependant on the consultants who possess tremendous bargaining power. Patient volumes are driven by consultant availability at a hospital and they are generally given the freedom to choose multiple hospitals to work at as well as to set their fee structure. The influence of consultants can even extend to capex decisions made by the hospital on medical equipment and facilities. In contrast Apollo introduced a resident specialist doctor format which relied heavily on expatriate specialists hired on contract basis, but because Sri Lankan patients are drawn by the reputation of the doctor rather than the institution this model has had mixed success.

The bulk of a Sri Lankan private hospital's revenue is composed of room charges, pharmacy sales and diagnostics which comprises of lab services and radiology/imaging.

Room rates (Rs.)	Ward	Normal	A/C	Luxury
Nawaloka	1,600	2,900	3,700	8,200
Asiri Surgical	2,200	3,500	4,250	7,000
Durdans	3,000		4,750	4,950
Apollo	1,500-2,000		3,200-12,500	

Most of the private hospitals offer different grades of private rooms keeping their mix of lower tier ward beds to a minimum in order to maximize revenue. The different grades offer a variety of modern amenities. While publicly disclosed room charges can vary from a per night minimum of Rs.2,000 to Rs.12,500 for the luxury segment these bed fees are augmented by additional charges which vary according to the intensity of the procedure and duration of stay. While current bed capacity is limited private hospitals have maximized resources through a sustained reduction in average length of stay and improving throughput procedures.

Hospitals have historically made large margins on pharmaceutical sales thanks to their advantages of buying in bulk and being able to sell on large mark-ups to what is effectively a captive market. This was because purchasing advantages used to be amplified by the close relationships hospitals have with suppliers and the bulk purchase of generics. However the profitability of this business may have been eroded by bad inventory management practices where hospitals tend to initially overpurchase drugs that are subsequently not recommended by physicians. Typically drugs can account for almost half of all health care bills.

The clinical test segment for revenue has been a major growth area for the private medical sector. While the hospital itself can drive a lot of volume through their lab services most have also established islandwide collection points in order to provide these services to smaller medical centres and clinics. Much of this revenue comes from basic blood and urinary testing done at healthy margins, with Nawaloka and Asiri providing more sophisticated testing as well.

Although a leading contributor to revenue, the radiology and imaging units require the heaviest capital investment. A top of the range CT scanner can cost upwards of \$1m. Investment here implicitly boosts overall revenue thanks to synergies since superior facilities would lead to surgeons referring more patients to the hospital. This is particularly significant in the treatment of high margin specialties like cardiology and neurology.

Hospitals exploit economies of scale and scope by combining a specific set of assets, such as pharmacies and imaging departments, clinical laboratories, and emergency rooms. In varying degrees, profit margins will improve as hospitals grow in size and we expect the current phase of consolidation and capacity expansion to increase the dominance of the larger players in the sector.

A recent trend in hospital investment has seen initiatives to start up specialized facilities to treat specific diseases. Ceylinco and Ninewells are the current examples with facilities for diabetes, cancer and ob/gyn. The large capital investment required set up even a specialized healthcare facility leads us to conclude that this strategy is best suited for a group which already has interests in the sector. The emergence of hospital conglomerates in the current run of consolidation makes this a possibility in the future. Networks of stand-alone ambulatory service centres, diagnostic-imaging centres, endoscopy suites, and specialty hospitals could become features of expansion for the current set of private health care operators.

### **Prospects**

The private sector should continue to expand with the underlying demand set to outstrip supply for the foreseeable future. Existing incumbents are best placed to benefit from these trends with the sector retaining its growth potential for many years to come.

#### **(i) Capacity expansion**

While the current round of capacity expansion will boost earnings in the medium term it will be insufficient to handle rising demand. We expect to see further investment from new entrants and possible consolidation activity among the current operators. Constrained capacity will however continue to be a feature of this industry.

#### **(ii) Regional demand**

Most Sri Lankans still travel to Colombo to obtain tertiary healthcare services. Provincial statistics on bed capacities, morbidity and spending indicate that the North Western, Southern and Central Provinces provide the best opportunities for private hospital expansion. Of the current operators only Asiri and Nawaloka have made a serious effort to establish a presence outside the capital.

(iii) IT efficiencies

Investment in IT could help achieve numerous efficiencies especially in areas like patient record databases and inventory management systems. Point of sale payment systems and inventory management could help rationalize the sale of pharmaceuticals and boost margins.

## Valuations

We estimate that the quoted sector will grow revenues at an average of 26% over the next three years, while correspondingly EBIT will grow at an average of 38%, with the new investment improving EBIT margins.

Trading at 40x FY08 earnings the sector is at a premium to market multiples. However this is because FY08 earnings are suppressed due to the cost of ongoing investment projects.

Given strong underlying demand the sector presents attractive prospects for earnings growth when factoring in current expansion and consolidation efforts. Our sector picks are the Asiri Group (ASIR & AMSL) and Durdans (CHL).

A comparison between Sri Lankan hospital stocks and regional/US hospital stocks is given below.

Rs mlns	Net earnings		PER	P/BV
	(FY07)	PER (FY07)	(FY08E)	(FY07)
Apollo	(155)	n/a	40.3	3.3
Durdans	170	7.8	13.9	0.9
Nawaloka	(113)	n/a	n/a	1.3
Asiri Surgical	221	22.3	30.3	4.2
Asiri Hospital	184	31.5	45.7	4.8

Rs mlns	Net earnings		P/BV
	(FY07)	PER (ttm)	(FY07)
Bumrungrad (Thailand)	4,834	27	10
Bangkok Dusit (Thailand)	4,838	36	5
Parkway Holdings (Singapore)	4,264	42	8
Raffles Medical (Singapore)	1,218	24	7
Apollo (India)	2,757	26	3
Community Health Systems (US)	19,511	18	2
Universal Health Services (US)	29,666	12	2

## HEALTHCARE STATISTICS BY PROVINCE

Monthly Per Capita Expenditure by Province	Western	Central	Southern	Northern	Eastern	North Western	North Central	Uva	Sabaragamuwa	All Provinces
Health	241	86	119	81	96	126	76	68	77	135
Health %	4.1%	2.8%	3.7%	2.5%	3.1%	3.1%	2.4%	2.7%	2.8%	3.4%
Total	5922	3089	3222	3255	3136	4012	3159	2564	2793	3936
Population distribution										
By gender %										
Male	46.7%	48.5%	47.2%	45.9%	46.4%	48.2%	48.8%	48.3%	48.6%	47.6%
Female	53.3%	51.5%	52.8%	54.3%	53.6%	51.8%	51.2%	51.7%	51.4%	52.4%
By age groups %										
0-4 Years	7.8%	8.1%	6.8%	7.2%	10.3%	8.0%	8.6%	7.9%	7.4%	7.9%
5-9 Years	7.6%	7.6%	9.0%	10.4%	11.2%	7.6%	7.1%	9.0%	7.7%	8.2%
10-14 Years	8.2%	10.0%	11.3%	10.8%	12.3%	9.4%	10.9%	12.3%	9.9%	10.0%
15-18 Years	6.7%	8.1%	8.8%	8.0%	9.0%	7.8%	8.2%	10.2%	8.1%	8.0%
19-24 Years	10.2%	10.8%	9.9%	12.2%	10.4%	10.6%	11.0%	9.6%	10.8%	10.5%
25-34 Years	15.4%	13.5%	12.4%	12.3%	13.3%	14.2%	15.0%	11.6%	13.7%	13.9%
35-44 Years	14.4%	13.3%	13.0%	10.2%	13.3%	13.9%	14.2%	15.1%	13.5%	13.7%
45-54 Years	12.5%	13.7%	12.1%	11.8%	9.9%	13.6%	12.7%	11.8%	13.4%	12.6%
55-64 Years	9.0%	7.9%	7.7%	8.9%	5.8%	8.0%	6.8%	7.3%	8.1%	8.0%
Over 64 Years	8.1%	7.0%	9.1%	8.3%	4.5%	7.0%	5.6%	5.3%	7.4%	7.3%
All	17.1%	14.9%	16.8%	17.2%	10.3%	15.0%	12.4%	12.6%	15.5%	15.3%
Persons in ill health by age group, % of population										
0-14 Years	17.7%	10.8%	17.1%	6.6%	9.1%	14.5%	13.6%	15.1%	13.7%	14.2%
15-34 Years	9.7%	6.4%	9.7%	6.5%	9.2%	9.6%	9.1%	8.7%	6.5%	8.7%
35-54 Years	15.0%	10.7%	13.3%	16.3%	17.6%	16.5%	11.5%	15.2%	12.2%	14.1%
55-64 Years	22.1%	11.3%	15.3%	24.5%	20.7%	19.3%	18.4%	19.6%	15.0%	18.4%
Over 64 Years	23.2%	13.5%	21.2%	31.2%	22.3%	26.6%	20.1%	30.2%	19.1%	22.1%
All	15.2%	9.6%	14.1%	12.3%	12.4%	14.7%	12.2%	14.2%	11.5%	13.3%

Source: Central Bank - Consumer Finances and Socioeconomic Survey

### State sector bed capacity (2005)

	Mixed Medical & Surgical	Medical	Surgical	Pediatrics / Children	Obstetric / Gynaecology	Communicable diseases	Tuberculosis	Cancer	Leprosy	Psychiatry	Neurology / Neuro Surgery	Genito Urinary	Cardiology	ENT	Eye	Skin	Orthopaedic	Thoracic Surgery	Plastic Surgery / Burns	Rheumatology / Rehabilitation	Dental	Others	Total
Western	1,150	6,079	3,422	1,212	1,392	14	-	504	-	1,748	123	136	154	404	192	58	689	164	91	74	48	1,595	19,249
Central	979	2,280	1,014	886	618	-	40	-	-	78	53	-	-	78	101	-	167	-	19	63	-	1,182	7,558
Southern	554	2,316	1,020	652	461	-	48	78	-	81	36	18	35	98	110	89	60	-	-	-	23	1,090	6,769
Northern	337	1,102	398	97	5	-	57	63	-	74	-	-	-	-	63	20	16	-	-	-	2	781	3,015
Eastern	549	1,729	579	597	359	-	66	14	60	56	-	-	-	22	114	-	29	-	-	-	-	793	4,967
North Western	723	2,149	760	491	353	9	19	13	-	41	49	36	-	51	119	-	58	43	-	34	-	1,114	6,062
North Central	635	1,521	419	459	347	3	-	58	-	86	47	-	32	29	79	18	-	-	-	-	29	510	4,272
Uva	512	1,263	315	330	152	-	-	-	-	26	7	-	8	41	14	-	-	-	-	-	-	609	3,277
Sabaragamuwa	494	1,591	779	591	674	-	34	-	-	29	-	-	-	56	78	21	-	-	-	21	71	629	5,068

Source: Ministry of Health- Medical Statistics Division

### People per bed in the state sector (2005)

	Mixed Medical & Surgical	Medical	Surgical	Pediatrics / Children	Obstetric / Gynaecology	Communicable diseases	Tuberculosis	Cancer	Leprosy	Psychiatry	Neurology / Neuro Surgery	Genito Urinary	Cardiology	ENT	Eye	Skin	Orthopaedic	Thoracic Surgery	Plastic Surgery / Burns	Rheumatology / Rehabilitation	Dental	Others	Total	
Western	4,679	885	1,573	4,440	3,866	384,371	-	10,677	-	3,078	43,750	39,568	34,943	13,320	28,027	92,779	7,810	32,812	59,134	72,719	112,108	3,374	280	
Central	2,476	1,063	2,390	2,736	3,922	-	60,599	-	-	31,076	45,735	-	-	31,076	24,000	-	14,515	-	127,577	38,476	-	2,051	321	
Southern	4,112	984	2,234	3,494	4,942	-	47,464	29,209	-	28,127	63,285	126,571	65,093	23,248	20,712	25,599	37,971	-	-	-	99,055	2,090	337	
Northern	2,283	698	1,933	7,933	153,892	-	13,499	12,214	-	10,398	-	-	-	-	12,214	38,473	48,091	-	-	-	384,731	985	255	
Eastern	3,080	978	2,921	2,833	4,711	-	25,623	120,793	28,185	30,198	-	-	-	76,868	14,834	-	58,314	-	-	-	-	-	2,133	340
North Western	3,001	1,010	2,855	4,419	6,147	241,099	114,205	166,915	-	52,924	44,284	60,275	-	42,547	18,234	-	37,412	50,463	-	-	63,820	-	1,948	358
North Central	1,740	726	2,636	2,407	3,184	368,226	-	19,046	-	12,845	23,504	-	34,521	38,092	13,983	61,371	-	-	-	-	38,092	2,166	259	
Uva	2,300	932	3,738	3,568	7,746	-	-	-	-	45,283	168,194	-	147,170	28,716	84,097	-	-	-	-	-	-	-	1,933	359
Sabaragamuwa	3,646	1,132	2,312	3,048	2,673	-	52,980	-	-	62,115	-	-	-	32,167	23,094	85,778	-	-	-	-	85,778	25,371	2,864	355

Source: Ministry of Health- Medical Statistics Division

Cases per 100,000 people (2005)	2000	2001	2002	2003
Certain infectious and parasitic diseases	2,432	2,149	2,195	1,856
Neoplasms	260	287	302	276
Diseases of the blood and blood-forming organs & certain disorders involving the immune system	111	105	87	79
Endocrine, nutritional and metabolic diseases	278	328	305	312
Mental and behavioural disorders	247	257	222	211
Diseases of the nervous system	243	262	265	258
Diseases of the eye and adnexa	300	348	349	366
Diseases of the ear and mastoid process	87	88	89	84
Diseases of the circulatory system	1,153	1,270	1,224	1,207
Diseases of the respiratory system	2,313	2,302	2,441	2,353
Diseases of the digestive system	1,057	1,147	1,128	1,096
Diseases of the skin and subcutaneous system	567	595	594	567
Diseases of the musculoskeletal system and connective tissue	612	621	620	587
Diseases of the genitourinary system	1,125	1,216	1,206	1,125
Pregnancy, childbirth the puerperium	3,123	3,383	3,525	3,560
Certain condition originating in the perinatal period	9,109	9,505	9,284	9,643
Congenital malformations, deformations and chromosomal abnormalities	55	62	63	58
Symptoms, signs and abnormal clinical and laboratory findings not elsewhere classified	1,061	1,193	1,198	1,242
Injury, poisoning and certain other consequences of external causes	3,346	3,619	3,413	3,372

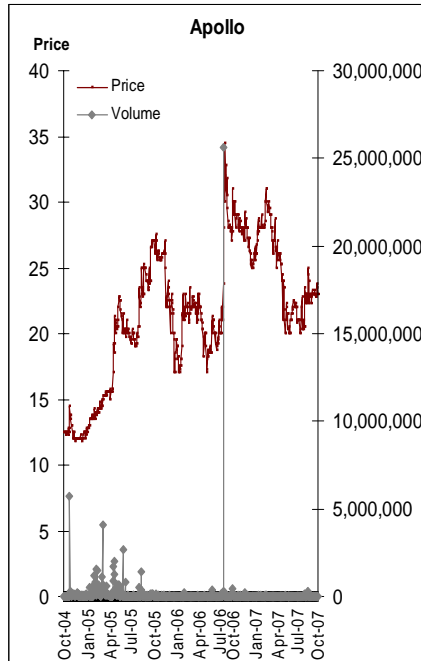
Source: Ministry of Health- Medical Statistics Division



# Lanka Hospitals Corporation PLC (Apollo)

Rs. 23.00

HOLD



LHCL	
Reuters Code	LHCL.CM
Bloomberg Code	LHCL.SL
Share Price LKR	23.00
Issued Share Capital (Shares)	156,612,518
12 mth High/Low (Rs.)	31.75 / 19.50
Average Daily Volume (Shares)	12,075
Market Capitalization Rs.mn	3,602
Price Performance (%)	1 mth 3 mth 12 mth
ASPI	1.02 1.93 4.78
LHCL	0 9.52 -30.43

Fiscal year	Net profit (Rs m)	EPS (Rs)	Growth (%)	PER (X)	P/BV (x)	ROE (%)
2006	3.9	0.02	106.8	924.80	3.45	0.37
2007	(154.8)	(0.99)	-4074.3	n/a	2.78	n/a
2008E	89.4	0.57	157.8	40.29	1.51	3.74
2009E	99.5	0.64	11.3	36.20	1.45	3.99
2010E	105.6	0.67	6.1	34.11	1.39	4.07

- ✓ Built by the Indian based Apollo Group and commissioned in 2002, Apollo underwent a change of ownership in late 2006, with the Distilleries group, through SLIC buying over 80% of the quoted entity for a consideration of Rs.28.00 per share. The new management has negotiated with the Apollo Group to retain the Apollo brand while exercising operational control.
- ✓ Apollo was initially designed for 300 beds and is expandable to 500 beds. The Hospital currently has 250 beds equipped and operational and is one of the few Colombo hospitals to have under-utilized capacity, currently operating at marginally over 55% of installed bed strength. Apollo's split between wards and single beds skews significantly higher to wards as compared to the norm for premium Colombo based private hospitals. The large majority of Apollo revenue can be classified as inpatient, with the key revenue drivers being Cardiology and Pediatric Cardiology.
- ✓ Apollo is the only private hospital which offered a predominantly resident team of medical specialists, made up of mainly expat Indian specialists on contract with Apollo, India. However, since the change in ownership, a significant number of expat doctors have returned to India once the contracts run out. Currently about 200 of Apollo's nurses are Indian comprising the majority with the rest filled out by Sri Lankans. Lack of support staff is a significant factor in Apollo being unable to make optimum use of their capacity. The management's long term aim is to make the majority of the nurses Sri Lankan since one of the problems faced by Apollo is that the Indian nurses are unable to communicate with local patients.
- ✓ Despite breaking even in FY06 after commencing operations in 2002, Apollo has subsequently posted negative net earnings in FY07. Whilst revenue increased at CAGR of 6.8% from FY04 to FY07, revenue growth has regressed in FY07 where the company top-line decrease was 1.1%.
- ✓ A rights issue of 3 for 7 shares at Rs.15 was announced on the 16th of October. The issue will raise Rs.1bn which will be used to retire debt. This will lead to a new level of profitability for Apollo.

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- ✓ With uncertainty over long term availability of medical specialists and support staff hindering occupancy, revenue growth will likely lag behind industry levels, whilst rising costs should see a further erosion in earnings prospects, till such time the company undergoes an operational restructure. In addition, with the hospital entering into its seventh year of operations, equipment replacement may be required

Income Statement	2005	2006	2007	2008E	2009E	2010E
Year ending 31st March	Rs. mn	Rs. mn	Rs. mn	Rs. mn	Rs. mn	Rs. mn
Revenue	1,657	1,832	1,811	1,902	1,997	2,097
Cost of Services	(528)	(571)	(581)	(616)	(647)	(679)
Gross profit	1,129	1,261	1,231	1,286	1,350	1,418
Expenses	(1,014)	(1,076)	(1,204)	(1,160)	(1,218)	(1,279)
Operating profit	115	184	30	126	132	138
Net finance cost	(170)	(180)	(187)	(35)	(31)	(32)
Tax	(1)	(0)	2	(1)	(1)	(1)
Net earnings	(56)	4	(155)	89	99	106

Balance Sheet	2005	2006	2007	2008E	2009E	2010E
As at 31st March	Rs. mn	Rs. mn	Rs. mn	Rs. mn	Rs. mn	Rs. mn
<b>Fixed Assets</b>						
PP&E	2,418	2,299	2,728	2,642	2,548	2,650
Other	37	51	65	63	69	69
	2,455	2,349	2,792	2,705	2,617	2,719
<b>Current Assets</b>						
Inventories	58	62	61	64	76	80
Receivables	49	68	78	81	85	89
Cash	20	21	19	245	443	455
	126	152	157	390	604	624
<b>Current Liabilities</b>						
Short-term loans & OD	471	615	829	183	168	171
Trade payables	138	124	165	237	264	277
Other	30	1	0	18	23	23
	639	739	993	438	455	471
<b>Long-term Liabilities</b>						
Term Debt	795	603	406	12	16	16
Other	17	116	255	253	259	259
	813	719	661	265	275	275
<b>Net Assets</b>	1,130	1,043	1,295	2,392	2,491	2,597
<b>Stated Capital</b>	1,665	1,665	1,665	2,672	2,672	2,672
Reserves	(535)	(621)	(370)	(280)	(181)	(75)
Shareholder's Funds	1,130	1,043	1,295	2,391	2,491	2,596

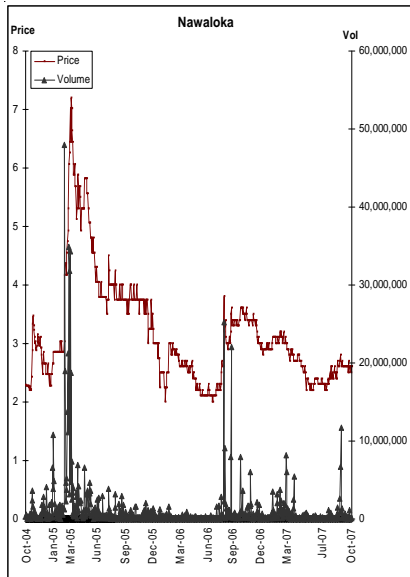
Cash flow statement	2005	2006	2007E	2008E	2009E	2010E
Year ending 31st March	Rs. mn	Rs. mn	Rs. mn	Rs. mn	Rs. mn	Rs. mn
PBT	(55)	4	(157)	90	100	107
Depreciation / Amortization	130	133	139	146	153	161
Finance costs	170	180	187	35	31	32
Other	14	8				
Change in working capital	(31)	(94)	33	66	11	5
Cash from Operations	228	231	202	338	296	305
Finance costs paid	(170)	(163)	(187)	(35)	(31)	(32)
Income tax paid	-	(4)	(5)	(1)	(1)	(1)
Other						
Net Cash from Operations	57	64	11	301	264	272
Net PPE	(48)	(14)	(569)	(60)	(60)	(263)
Net Investments	0	0				
Other						
Net Cash from Investing	(48)	(14)	(569)	(60)	(60)	(263)
Proceeds from Shares				1,007		
Borrowings	(20)	(101)	16	(1,022)	(6)	3
Dividends paid						
Other						
Net Cash from Financing	(20)	(101)	16	(15)	(6)	3
Net increase in Cash	(11)	(51)	(541)	226	198	12



# Nawaloka Hospitals PLC (NHL)

Rs. 2.50

HOLD



NHL			
Reuters Code	NHL.CM		
Bloomberg Code	NHL.SL		
Share Price LKR	2.50		
Issued Share Capital (Shares)	704,752,798		
12 mth High/Low (Rs.)	3.80 / 2.10		
Average Daily Volume (Shares)	622,937		
Market Capitalization Rs.mn	1,762		
Price Performance (%)	1 mth	3 mth	12 mth
ASPI	1.02	1.93	4.78
NHL	4.00	8.70	-44.00

Fiscal year	Net profit (Rs m)	EPS (Rs)	Growth (%)	PER (X)	P/BV (x)	ROE (%)
2006	53.2	0.08	-54.4	33.14	1.16	3.50
2007	(113.4)	(0.16)	-313.4	n/a	1.25	n/a
2008E	(262.7)	(0.37)	-131.6	n/a	1.54	n/a
2009E	115.3	0.16	143.9	15.28	1.40	9.16
2010E	294.8	0.42	155.7	5.98	1.13	18.98

- ✓ Having started with 100 beds 21 years ago, the hospital currently has a bed capacity of 325 along with 70 consultation chambers. NHL is currently midway through another expansion phase, which will take them to 410 beds and 10 OTs from its current complement of 6, by FY08 . The capacity expansion can be broken down into a construction cost of Rs. 400-450m and an equipment cost of approximately Rs.300-350m.
- ✓ Nawaloka is considered to have the second largest share of the diagnostic laboratory market behind market leader Asiri. The lab facility is a tie-up with Metropolis Health Services of India with a 50/50 profit sharing venture. The agreement was signed in 2005 for a period of 5 years. Nawaloka Metropolis has focused on positioning itself as the high-end referral laboratory in Sri Lanka with a tertiary central laboratory at the Hospital's Colombo centre
- ✓ Nawaloka's investment of Rs.120m in cardiac catheterization lab facilities which facilitates angioplasty and stenting procedures has boosted heart procedure volumes with Cardiac Procedures increasing 16% compared to FY06. A 64 slice CT scanner for cardiac evaluation is planned for once the current capacity expansion project is complete

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- ✓ Nawaloka invested Rs. 833 million on a 24 percent stake in the 446 room Galadari Hotel in August 2005, when the GoSL divested same. The investment to-date has proved a white elephant, with Nawaloka's Rs.156m share of the associate's loss in FY07 being the primary factor in the company making net losses for the year.
- ✓ Like its peers, Asiri and Asha, Nawaloka is currently operating at full strength. Whilst revenue has increased by a CAGR of 16.2% from FY03 to FY07, margins have exhibited a declining trend with operating profit margin declining from 15.4% in FY03 to 11.3% in FY07, with staff costs increasing by an average of 21.6% from FY03 to FY07.

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- ✓ Revenues will be boosted with the much needed room supply coming on stream in FY09, whilst margins can receive a boost with the increased OT capacity. Operating Profit should grow at a three year CAGR of 37%. Group net earnings continue to be affected by their holding of Galadari. However the proposed conversion of Galadari's government debt to equity should bring Nawaloka's holding below 20% which would then necessitate the stake to be treated as an investment.
  
- ✓ We estimate that this will impact earnings positively in FY09 with growth of 155% subsequently expected in FY10. Nawaloka currently trades at 15.3x our FY09 estimate.

Income Statement	2006	2007	2008E	2009E	2010E
Year ending 31st March	Rs. mn	Rs. mn	Rs. mn	Rs. mn	Rs. mn
Revenue	1,673	1,987	2,385	2,933	3,373
Cost of Services	(921)	(1,088)	(1,300)	(1,599)	(1,838)
Gross profit	751	898	1,085	1,335	1,535
Expenses	(532)	(675)	(754)	(851)	(960)
Operating profit	219	224	331	483	575
Net finance cost	(77)	(142)	(379)	(314)	(224)
Associate	(26)	(156)	2	2	2
Writedown in investment value			(170)		
PBT	116	(75)	(223)	169	351
Tax	(63)	(38)	(40)	(54)	(56)
Profit attributable	53	(113)	(263)	115	295

Balance Sheet	2006	2007	2008E	2009E	2010E
As at 31st March	Rs. mn	Rs. mn	Rs. mn	Rs. mn	Rs. mn
<b>Fixed Assets</b>					
PP&E	1,338	1,454	2,254	2,314	2,389
Associate / Investments	818	661	663	665	667
	<u>2,156</u>	<u>2,115</u>	<u>2,917</u>	<u>2,979</u>	<u>3,056</u>
<b>Current Assets</b>					
Inventories	70	77	81	128	154
Trade and Other Receivables	143	184	178	187	121
Receivables from Related Companies	64	149	118	165	142
Deposits and Advances	144	136	98	126	133
Cash	9	9	4	1	2
	<u>431</u>	<u>554</u>	<u>479</u>	<u>607</u>	<u>552</u>
<b>Current Liabilities</b>					
Short-term loans & OD	657	271	480	474	440
Trade payables	143	204	180	234	214
Other	55	30	44	65	81
	<u>856</u>	<u>504</u>	<u>704</u>	<u>773</u>	<u>735</u>
<b>Long-term Liabilities</b>					
Term Debt	117	644	1,441	1,429	1,166
Other	95	116	108	126	154
	<u>212</u>	<u>760</u>	<u>1,549</u>	<u>1,555</u>	<u>1,320</u>
<b>Net Assets</b>	1,519	1,406	1,143	1,258	1,553
Stated Capital	1,207	1,207	1,207	1,207	1,207
Reserves	312	198	(64)	51	346
Shareholder's Funds	1,519	1,406	1,143	1,258	1,553

Cash flow statement	2006	2007	2008E	2009E	2010E
Year ending 31st March	Rs. mn	Rs. mn	Rs. mn	Rs. mn	Rs. mn
PBT	116	(75)	(223)	169	351
Depreciation / Amortization	113	127	172	188	204
Finance costs	77	142	379	314	224
Associate	26	156	(2)	(2)	(2)
Other	10	26			
Change in working capital	(35)	(67)	47	(77)	36
<b>Cash from Operations</b>	307	309	373	592	813
Finance costs paid	(77)	(142)	(379)	(314)	(224)
Income tax paid	(25)	(62)	(40)	(54)	(56)
Other	(4)	(4)			
<b>Net Cash from Operations</b>	201	101	(46)	224	533
<b>Net PPE</b>	(222)	(242)	(972)	(248)	(279)
<b>Net Investments</b>	(843)				
Other					
<b>Net Cash from Investing</b>	(1,065)	(242)	(972)	(248)	(279)
Proceeds from Shares	419				
Borrowings	490	62	1,013	21	(253)
Dividends paid	(35)				
Other					
<b>Net Cash from Financing</b>	873	62	1,013	21	(253)
<b>Net increase in Cash</b>	9	(79)	(5)	(3)	1

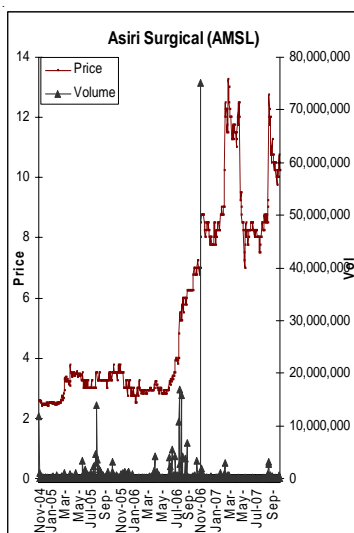
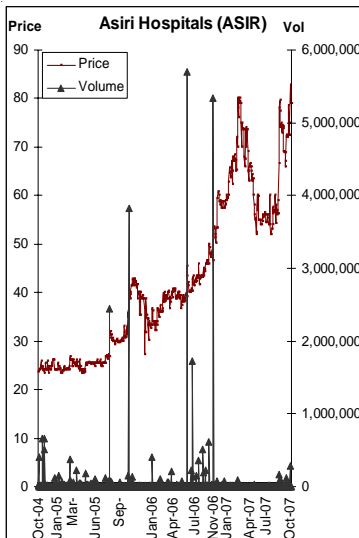


# Asiri Group (ASIR / AMSL / ASHA)

ASIR- Rs. 81.50

AMSL- Rs.10.50

BUY



### ASIR

Fiscal year	Net profit (Rs m)	EPS (Rs)	Growth (%)	PER (X)	P/BV (x)	ROE (%)
2006	125.0	1.8	-51.5	46.40	5.16	11.13
2007	184.2	2.6	47.4	31.49	4.83	15.34
2008E	127.0	1.8	-31.0	45.65	4.37	9.58
2009E	(68.0)	(1.0)	-153.5	n/a	4.60	n/a
2010E	932.0	13.1	1470.6	6.22	2.64	42.45

### AMSL

Fiscal year	Net profit (Rs m)	EPS (Rs)	Growth (%)	PER (X)	P/BV (x)	ROE (%)
2006	138.8	0.3	100.3	35.53	4.49	12.63
2007	220.7	0.5	59.0	22.35	4.18	18.72
2008E	162.7	0.3	-26.3	30.32	3.83	3.32
2009E	226.8	0.5	39.4	21.75	3.37	16.93
2010E	848.0	1.8	273.9	5.82	2.18	27.28

✓ Comprising three quoted entities Asiri Hospitals Limited ASIR (the parent company), Asiri Medical Services Limited (AMSL) and Asha Central Hospitals Limited (ASHA), the Asiri group have established the strongest franchise in private health care and is one of the few hospitals attempting to extend this brand to the rest of the country.

✓ The original Asiri Hospitals, which is the parent company, has a complete range of medical services with 110 beds and 3 operating theatres along with CT Scan diagnostic facilities.

✓ AMSL, which is a specialized surgical hospital has 110 beds and is currently going through a capacity expansion which will add another 40 beds by the end of 2008. The expansion will also see AMSL's operating theatre count go upto 7.

✓ AMSL has established a core competency in neurology, but is currently not as established in cardiac procedures when compared to peers like Durdens and Apollo. AMSL's focus on surgery affords it higher margins than its peer group. This facility was also the first in Sri Lanka to have a 64 slice CT scanner in its complement of imaging services. Asiri Surgical commenced operations in 2003 but reached full operations in FY05. This business unit enjoys a tax holiday that will end in 2014.

✓ The group's diagnostics laboratory is a major contributor to earnings with Asiri acknowledged as the market leader by peers carrying out approximately 70% of the diagnostic laboratory tests in Sri Lanka. The laboratory service has units in Kandy, Kalubowila, Matara, Negombo and Ragama with a branch in Kurunegala to be established. About 7,000-8,000 tests are done on a daily basis at the Colombo unit while Kandy carries out another 1,000 and Kalubowila carries out about 350. Asiri pioneered genetic testing in Sri Lanka which identifies chromosomal abnormalities which can cause disease.

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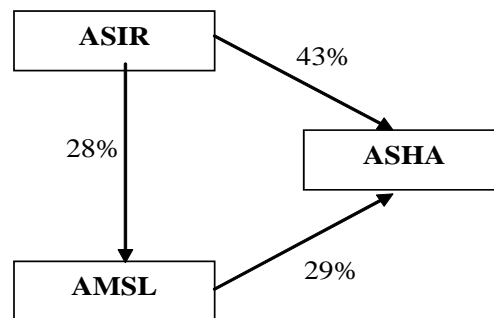
ASIR			
Reuters Code	ASIR.CM		
Bloomberg Code	ASIR.SL		
Share Price LKR	81.50		
Issued Share Capital (Shares)	71,141,043		
12 mth High/Low (Rs.)	98.75 / 49.75		
Average Daily Volume (Shares)	29,455		
Market Capitalization Rs.mn	5,798		
Price Performance (%)	1 mth	3 mth	12 mth
ASPI	1.02	1.93	4.78
ASIR	18.12	45.54	65.21

AMSL			
Reuters Code	AMSL.CM		
Bloomberg Code	AMSL.SL		
Share Price LKR	10.50		
Issued Share Capital (Shares)	469,739,990		
12 mth High/Low (Rs.)	14.25 / 6.50		
Average Daily Volume (Shares)	463,297		
Market Capitalization Rs.mn	4,932		
Price Performance (%)	1 mth	3 mth	12 mth
ASPI	1.02	1.93	4.78
AMSL	-2.33	27.27	50.00

- Asiri Hospitals entered into an agreement with a Matara based company named Central Dispensary & Nursing Home to lease a 50 bed hospital at the end of 2006. The hospital will have two operating theatres, maternity and ICU facilities in addition to diagnostics including a CT scanner.

- Asiri acquired the 114 bed Asha Central for a consideration of Rs.1.85b in end August 2007. Asha which is situated on a 291 perch freehold property in high end residential area of Horton Place, is in the process of constructing a new 250 bed facility at Norris Canal Road, in close proximity to the Colombo General Hospital. The acquisition was funded mainly through debt. Asiri is expected to keep the Horton Place facility running while the new project is being completed, and dispose of the prime property, currently valued at over Rs.1500m, once the new hospital is complete.

- The Norris Canal road project is estimated to cost approximately Rs.2.5bn over the next 24 months. The hospital, according to pre-acquisition management plans, was designed to have 250 beds with 75 channel consultation chambers along with 2 cardiac operating theatre suites and 6 general operating theatres. Services will be provided in the core disciplines of cardiac care, obstetrics, gynaecology and paediatrics. The new management is expected to make minor modifications to the overall plan in order to maximize on operational synergies.



- AMSL is accounted as a subsidiary of ASIR, whilst the ASHA acquisition was made by both quoted entities.

- Once the AMSL expansion and the new Asha Central Hospital is commissioned, the Asiri group will have the largest presence in high end Colombo private sector hospital beds with a compliment of over 550, as well as having over 18 OT's. In addition, the new Asha Central Hospital is ideally located in close proximity to the main National Hospital in Colombo, giving it a significant advantage in attracting visiting consultant medical specialists.

- The refurbishment at ASIR upgraded both inpatient and outpatient facilities and also expanded their laboratory operations. Post refurbishment, we expect operational earnings to grow by an average 42% over the next 3 years.

- ✓ AMSL currently enjoys premium margins on account of its focus on high end surgical procedures. The addition of the 40 beds will further boost margins. We expect AMSL EBIT to increase by 54% in FY09.
  
- ✓ Post takeover, ASHA is expected to increase EBIT by approximately 30% in FY09, with synergies flowing through leveraging on group infrastructure. The significant jump in earnings is expected to come through in FY10 with the commissioning of the new hospital, which is expected to register Rs.410m in net earnings in its first year of operations.
  
- ✓ Both ASIR and AMSL earnings however, will be suppressed in the short term by borrowing costs of both the acquisition and the construction of the new Hospital, amounting to approximately Rs.4.3b spread through FY08-FY09. However, borrowings can be significantly reduced once the transition is complete and the prime Horton place real estate is divested.
  
- ✓ Currently both ASIR and AMSL are valued higher than sector and market multiples. However, given the significant medium term earnings upside that exists once the new hospital is commissioned, we see value in both AMSL and ASIR as long term investments.

**ASIRI**

<b>Income Statement</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>Year ending 31st March</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>
Revenue	1,292	1,707	2,607	3,197	4,388
Cost of Services	(717)	(899)	(1,450)	(1,758)	(2,420)
Gross profit	575	808	1,157	1,440	1,969
Expenses	(291)	(360)	(511)	(563)	(713)
Operating profit	287	465	646	877	1,256
Gain from disposal of property					1,040
Net finance cost	(44)	(78)	(356)	(820)	(421)
PBT	243	387	290	57	1,875
Tax	(33)	(75)	(86)	(7)	(23)
Minority interest	(85)	(128)	(77)	(117)	(920)
Profit attributable	125	184	127	(68)	932

<b>Balance Sheet</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>As at 31st March</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>
Fixed Assets	2,078	2,218	5,284	6,604	6,344
Current Assets					
Inventories	101	120	166	200	180
Receivables	50	97	200	175	160
Cash	7	20	64	127	195
Other	61	62	62	70	74
	219	299	492	572	609
Current Liabilities					
Short-term loans & OD	437	414	725	857	819
Trade payables	65	92	130	156	123
Other	26	38	38	38	38
	527	545	893	1,051	980
Long-term Liabilities					
Term Debt	98	144	2,838	4,000	1,988
Non interest bearing debt	75	70	66	59	53
Other	139	162	178	208	218
	312	375	3,082	4,267	2,259
Net Assets	1,459	1,597	1,801	1,858	3,714
Stated Capital	474	711	711	711	711
Reserves	649	489	616	549	1,481
Shareholder's Funds	1,123	1,200	1,328	1,260	2,195
Minority Interest	336	397	473	599	1,519

<b>Cash flow statement</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>Year ending 31st March</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>
PBT	243	387	290	57	1,875
Depreciation / Amortization	110	154	193	214	235
Finance costs	44	78	356	820	421
Other	6	17			(1,040)
Change in working capital	(5)	(39)	(112)	17	2
Cash from Operations	398	597	727	1,108	1,493
Finance costs paid	(44)	(78)	(356)	(820)	(421)
Income tax paid	(23)	(48)	(86)	(7)	(23)
Other	(2)	(2)			
Net Cash from Operations	329	470	285	281	1,049
Net PPE	(395)	(298)	(3,259)	(1,534)	1,065
Net Investments	0	0			
Other					
Net Cash from Investing	(395)	(298)	(3,259)	(1,534)	1,065
Proceeds from Shares					
Borrowings	(113)	68	3,018	1,317	(2,046)
Dividends paid	(129)	(174)	-		
Other					
Net Cash from Financing	(243)	(107)	3,018	1,317	(2,046)
Net increase in Cash	(308)	65	43	64	68

**AMSL**

Income Statement	2006	2007	2008E	2009E	2010E
Year ending 31st March	Rs. mn	Rs. mn	Rs. mn	Rs. mn	Rs. mn
Revenue	531	719	848	1,188	1,485
Cost of Services	(262)	(335)	(395)	(553)	(692)
Gross profit	269	384	453	634	793
Expenses	(129)	(162)	(186)	(221)	(268)
Operating profit	139	226	271	418	529
Associate	-	-	19	47	427
Net finance cost	(0)	(4)	(125)	(236)	(106)
Tax	(0)	(1)	(2)	(2)	(2)
Net Profit	139	221	163	227	848

Balance Sheet	2006	2007	2008E	2009E	2010E
As at 31st March	Rs. mn	Rs. mn	Rs. mn	Rs. mn	Rs. mn
<b>Fixed Assets</b>					
PP&E / Leasehold	1,236	1,226	1,476	1,432	1,389
Investment			947	1,229	1,371
	1,236	1,226	2,423	2,661	2,760
<b>Current Assets</b>					
Inventories	53	55	75	106	123
Receivables	16	42	60	91	104
Cash	5	7	26	15	107
Other	1	2	2	2	2
	75	106	163	214	336
<b>Current Liabilities</b>					
Short-term loans & OD	18	41	199	198	208
Trade payables	28	35	45	54	61
Other	89	5	12	10	10
	135	81	256	262	279
<b>Long-term Liabilities</b>					
Term Debt	-	-	975	1,088	505
Non interest bearing debt	75	70	64	59	49
Other	1	2	2	3	4
	76	72	1,041	1,150	558
Net Assets	1,099	1,179	1,289	1,463	2,259
Stated Capital	982	982	982	982	982
Reserves	117	197	307	481	1,277
Shareholder's Funds	1,099	1,179	1,289	1,464	2,259

Cash flow statement	2006	2007	2008E	2009E	2010E
Year ending 31st March	Rs. mn	Rs. mn	Rs. mn	Rs. mn	Rs. mn
PBT	139	221	165	229	850
Depreciation / Amortization	50	73	87.14	101	110
Finance costs	1	5	125	236	106
Other	0	1			
Change in working capital	27	(104)	(28)	(53)	(23)
Associate			(19)	(47)	(427)
Cash from Operations	218	196	331	466	616
Finance costs paid	(0)	(4)	(125)	(236)	(106)
Income tax paid	(1)	(2)	(2)	(2)	(2)
Other					
Net Cash from Operations	217	190	204	228	508
Net PPE	(148)	(64)	(338)	(57)	(67)
Net Investments			(947)	(283)	(141)
Other					
Net Cash from Investing	(148)	(64)	(1,284)	(339)	(208)
Proceeds from Shares					
Borrowings	(8)	5	1,134	106	(582)
Dividends paid	(62)	(141)	(53)	(53)	(53)
Dividend received			19	47	427
Other					
Net Cash from Financing	(70)	(136)	1,100	101	(208)
Net increase in Cash	(1)	(9)	19	(11)	92

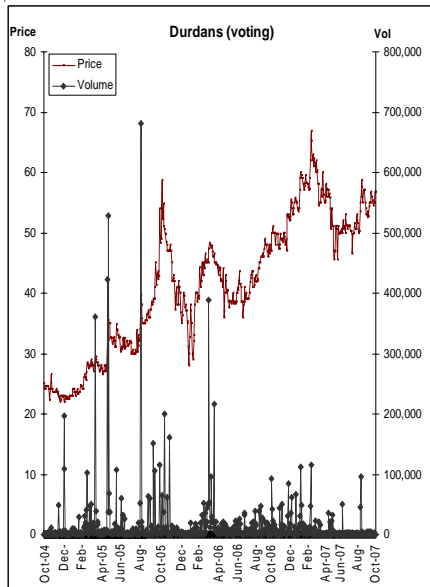


# Ceylon Hospitals PLC (CHL)

CHL.N- Rs. 55.00

CHL.X-Rs. 39.50

**BUY**



CHL	
Reuters Code	CHL.CM
Bloomberg Code	CHL.SL
Share Price LKR	
Voting	55.00
Nonvoting	39.50
Issued Share Capital	
Voting	19,500,000
Nonvoting	6,375,000
12 mth High/Low (Rs.)	
Voting	68.00 / 45.00
Nonvoting	44.75 / 27.00
Average Daily Volume (Shares)	
Voting	7,606
Nonvoting	10,499
Market Capitalization Rs.mn (Voting)	1,073
Price Performance (%)	1 mth    3 mth    12 mth
ASPI	1.02    1.93    4.78
CHL.N	3.77    7.32    17.02
CHL.X	1.28    3.95    41.07

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**October 2007**

## CHL (voting)

Fiscal year	Net profit (Rs m)	EPS (Rs)	Growth (%)	PER (X)	P/BV (x)	ROE (%)
2006	145.0	5.6	63.9	9.81	1.60	16.31
2007	169.9	6.6	17.1	8.38	0.93	11.13
2008E	95.5	3.7	-43.8	14.90	0.91	6.11
2009E	25.2	1.0	-73.6	56.53	0.93	1.65
2010E	402.0	15.5	1497.0	3.54	0.76	21.50

- Although Durdans was established over 60 years ago the hospital transformed itself over the 1990s with new initiatives to specialize in cardiac procedures as well as the introduction of professional management and modern IT practices that will help realize efficiencies ahead of its peer group.
- Durdans is currently undergoing a capacity expansion that will take them from 150 beds to 325 beds. Other facilities being built include new channeling consultation chambers adding to the current 28 rooms, approximately 9,000 sq ft for radiology, 5 new operating theatres adding to the current 3 and a bulking up of the Pediatrics and Ob/Gyn divisions. This phase costing almost Rs.2 bn is due to be complete by the end of 2009 with construction taking place without hampering current operations.
- Durdans' key specialization is in cardiac procedures, which is the largest contributor to revenue with a share of about 25%. The Company first setup its Cardiac centre in collaboration with Escorts Heart Institute in 1997, which was the pioneering non-invasive cardiac centre in Sri Lanka. Diagnostic laboratory services are the second largest contributor to revenue with an over 20% share, but outreach is limited compared to rivals like Asiri and Nawaloka.
- Thanks to their expansion initiatives, Durdans has shown higher than average revenue growth of 33% over the last three years from FY04 to FY07 when compared to their peers. Correspondingly operating profit also increased by an average of 40% over the same period while operating margins also increased from 13.5% in FY04 to 15.8% in FY07.
- We estimate that Durdans' expansion will help net earnings grow at a CAGR of 45% over the next three years with the benefits of the capacity expansion to be felt in FY10. The Durdans voting share is currently trading at a PER of 8x FY07 earnings while the non-voting share trades at 6x. We recommend **BUY**.

<b>Income Statement</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>Year ending 31st March</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>
Revenue	1,401	1,639	1,884	2,129	4,409
Cost of Services	(669)	(764)	(886)	(1,011)	(2,072)
Gross profit	732	875	999	1,118	2,337
Expenses	(512)	(632)	(728)	(816)	(1,598)
Operating profit	221	242	271	302	738
Net finance cost	(23)	(28)	(139)	(247)	(262)
PBT	212	230	149	73	494
Tax	(42)	(35)	(22)	(11)	(49)
Minority interest	(25)	(25)	(31)	(37)	(43)
Profit attributable	145	170	96	25	402

<b>Balance Sheet</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>As at 31st March</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>
<b>Fixed Assets</b>					
PP&E	1,067	1,779	2,479	3,170	3,603
Others	11	7	10	18	19
	<u>1,079</u>	<u>1,786</u>	<u>2,489</u>	<u>3,188</u>	<u>3,622</u>
<b>Current Assets</b>					
Inventories	83	89	94	106	220
Receivables	91	97	113	128	265
Cash	23	63	18	28	24
Other	132	111	90	60	23
	<u>328</u>	<u>358</u>	<u>316</u>	<u>322</u>	<u>532</u>
<b>Current Liabilities</b>					
Short-term loans & OD	132	177	145	205	198
Trade payables	124	221	264	251	273
Other	47	24	33	29	36
	<u>302</u>	<u>422</u>	<u>442</u>	<u>485</u>	<u>507</u>
<b>Long-term Liabilities</b>					
Term Debt	148	115	565	1,247	1,520
Other	30	38	182	185	185
	<u>179</u>	<u>153</u>	<u>747</u>	<u>1,432</u>	<u>1,705</u>
<b>Net Assets</b>	926	1,569	1,615	1,593	1,942
Stated Capital	259	259	259	259	259
Reserves	631	1,268	1,304	1,269	1,611
Shareholder's Funds	889	1,527	1,562	1,527	1,869
Minority interest	37	43	53	65	72

<b>Cash flow statement</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>Year ending 31st March</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>	<b>Rs. mn</b>
PBT	212	230	149	73	494
Depreciation / Amortization	44	56	68	82	98
Finance costs	23	28	139	247	262
Other	(47)	(3)			
Change in working capital	(20)	72	21	(40)	(229)
Cash from Operations	213	383	377	362	626
Finance costs paid	(23)	(28)	(139)	(247)	(262)
Income tax paid	(42)	(52)	(22)	(11)	(49)
Other	(2)	(3)			
Net Cash from Operations	<u>145</u>	<u>300</u>	<u>215</u>	<u>104</u>	<u>314</u>
Net PPE	(207)	(261)	(771)	(773)	(531)
Net Investments	35	46			
Other					
Net Cash from Investing	<u>(173)</u>	<u>(215)</u>	<u>(771)</u>	<u>(773)</u>	<u>(531)</u>
Proceeds from Shares					
Borrowings	55	1	571	738	273
Dividends paid	(48)	(58)	(60)	(60)	(60)
Other					
Net Cash from Financing	<u>6</u>	<u>(56)</u>	<u>511</u>	<u>678</u>	<u>213</u>
Net increase in Cash	(21)	29	(44)	9	(4)