

ACIBADEM (AHG)

EQUITY RESEARCH BUY

Everlasting Growth...

- Acibadem Health Group (AHG) posted a net profit of US\$13.9 mn, representing a 39% YoY increase, thanks to increase in total patients served and average revenue per patient.
- 12M05 revenues surged by 48% YoY and reached US\$170 mn, compared to our expectation of US\$160 mn.
- Operating margin materialized as 8% in 2005, remaining 2pp below our expectations as a result of 157% increase in operating expenses, due to the reclassification of G&A items.
- EBITDA margin increased slightly by 0.1pp to 19%, remaining 4pp below our expectations due to higher than expected increase in operating expenses.
- We revised up our revenue and net profit figures for 2006 by 8% and 18% respectively, on the back of 2005 results and new investment in Izmit.
- We revised down our EBITDA projection for 2006 by 11% as a result of higher than expected increase in operating expenses.
- We believe that Acibadem will post US\$22 mn net profit in 2006 as a result of relatively lower cost base.
- We upward revise our DCF based fair value by 16% to US\$804 mn based on modifications following 2005YE results and new investment announcement in Izmit. AHG has a 24% upside potential to its revised fair value. We reiterate our BUY recommendation.

Current Price (April 27, 2006)	YTL15.90
Current Mcap (mn)	US\$651
12-mth Target Price	YTL19.64
Target Mcap (mn)	US\$804

12-mth Forecast Returns (US\$)	
Dividend Yield	0.5%
Capital Appreciation	23.5%
12-mth Total Return	24.0%

Stock Data			
Ticker	ACIBD.IS	ACIBD.TI	
Sector	Medical-Hospitals		
# of Shares (mn)	54		
3M Avg. Trd. Vol. (mn)	US\$0.4		
52-week Range	YTL 4.30	YTL 17.10	

Market Data	
ISE 100	43,752
YTL/US\$	1.3195

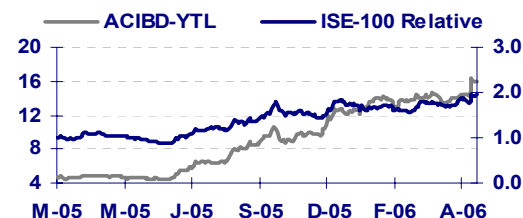
Shareholder Structure	
Mehmet Ali Aydinlar	35%
Other	29%
Free Float	36%
Foreign Holding as % of Free Float	87%

Financials (US\$ mn)	2005	2006E	2007E	2008E
Net Sales	170	211	270	339
% ch yoy	48	24	28	26
EBITDA	32	52	73	84
% ch yoy	49	61	40	16
Net Income	14	22	37	47
% ch yoy	39	58	70	27

Operating Margins	2005	2006E	2007E	2008E
Operating Margin	8%	9%	13%	13%
EBITDA Margin	19%	25%	27%	25%
Net Profit Margin	8%	10%	14%	14%
Dividend Yield	1%	1%	1%	1%

Financial Ratios	2005	2006E	2007E	2008E
P/E (US\$, x)	46.8	29.7	17.5	13.8
EV/EBITDA (US\$, x)	21.3	13.3	9.1	7.7
EV/Sales (US\$, x)	4.1	3.3	2.5	1.9
Debt/Equity (x)	0.2	0.4	0.4	0.4

Price Performance	1M	3M	YTD	YoY
US\$ Absolute	20%	13%	25%	225%
ISE-100 Relative	14%	17%	14%	75%



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12M05 revenues are up by 48% on the back of 9% increase in revenue per patient...

12M05 revenues surged by 48% YoY and reached US\$170 mn, compared to our expectation of US\$160 mn on the back of better than expected growth in revenue per patient by 9% YoY (5% above our expectations). Following the 12M05 results, we increased 2006E revenue per patient figure by 5% to US\$194 mn from US\$185 mn. We revised our revenue expectation up by 5% to US\$211 mn for 2006, by incorporating 2005YE results and the company's new Izmit/Kocaeli investments.

Izmit Hospital will be a general purpose hospital with a bed capacity of 60. AHG (Acibadem Health Group) is targeting to open the hospital by September 2006. According to our expectations and company's guidance, we assume that customer profile of Izmit/Kocaeli hospital will be close to Bakirkoy Hospital. Therefore, we used total patient assumptions of Bakirkoy Hospital while determining forecasts of Izmit investment. AHG will invest US\$5 mn by taking over existing debt of the new hospital, which is used for equipment purchases. Izmit Hospital's 60 bed capacity is lower than Bakirkoy Hospital's 130 bed capacity thus; we only took 45% of the total patient numbers of Bakirkoy in order to determine the capacity of Izmit. In addition, we do not attach any patient growth for Izmit Hospital going forward.

# of Outpatients (000):	2004	2005	Chg YoY	2005E	Deviation	2006E	2007E	2008E
Acibadem	269	291	8%	284	2%	291	291	291
Bakirkoy	186	236	27%	234	1%	236	236	236
Izmit/Kocaeli	-	-	-	-	-	26	106	106
Kozyatagi	37	160	338%	150	7%	180	197	199
Maslak	-	-	-	-	-	-	50	150
Bursa	-	-	-	-	-	70	140	189
International	-	35	-	50	-30%	81	89	89
Izmir	-	-	-	-	-	-	35	140
Fulya	-	-	-	-	-	-	-	45
Outpatient Clinics	127	141	12%	126	12%	141	141	141
Total	618	862	40%	844	2%	1,025	1,284	1,585
# of Inpatients (000):	2004	2005	Chg YoY	2005E	Deviation	2006E	2007E	2008E
Acibadem	15	15	-1%	15	-3%	15	15	15
Bakirkoy	11	12	7%	12	-2%	13	13	14
Izmit/Kocaeli	-	-	-	-	-	2	6	6
Kozyatagi	2	5	232%	5	7%	9	12	11
Maslak	-	-	-	-	-	-	3	8
Bursa	-	-	-	-	-	4	9	10
International	-	3	-	5	-27%	5	5	6
Izmir	-	-	-	-	-	-	2	8
Fulya	-	-	-	-	-	-	-	2
Total	28	36	28%	37	-5%	49	66	81
TOTAL PATIENTS	646	898	39%	881	2%	1,074	1,350	1,665
RPP* (Weighted Avg)	\$174	\$190	9%	\$181	5%	\$196	\$200	\$203
NET SALES (US\$ mn)	115	170	48%	160	7%	211	270	339

*Revenue Per Patient (outpatient&inpatient)

Although increase in number of patients served surpassed our expectations by 2% on average, we maintain our projections in order to be conservative.

Increase in COGS up 35% YoY by reaching US\$135 mn in 2005...

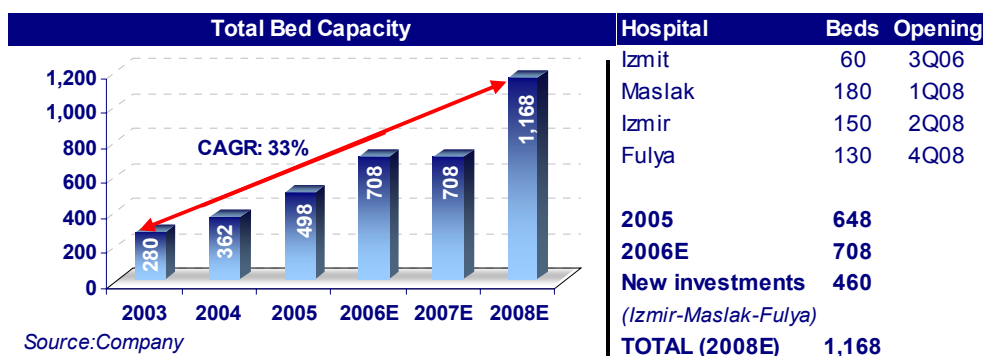
Increase in cost of goods sold materialized as 35% YoY by reaching US\$135 mn in 2005. Increase in COGS remained only 3% above our expectation due to higher than expected increase in sales. In line with the company management's guidance, we base our COGS expectations by factoring total sales for each

healthcare unity by a multiplier. This multiplier is declining from 0.8 to 0.72 depending on the opening of a unit. For the new hospital, we are using a multiplier of 0.8 and reducing this figure by 3.25pp for two years to 0.73, considering that new hospitals are reaching to a breakeven within 2 years. From 2010, we expect that the multiplier will go down to 0.72, as the system becomes more cost efficient as a result of economies of scale.

Gross Margin	2004	2005	Chg YoY	2005E	Deviation	2006E	2007E	2008E
Acibadem	14%	23%	9pp	20%	-3pp	24%	27%	27%
Bakirkoy	14%	23%	9pp	20%	-3pp	24%	27%	27%
Izmit/Kocaeli	-	-	-	-	-	20%	23%	27%
Kozyatagi	14%	23%	9pp	10%	-3pp	24%	27%	27%
Maslak	-	-	-	-	-	-	20%	23%
Bursa	-	-	-	-	-	20%	23%	27%
International	-	23%	-	20%	-3pp	24%	27%	27%
Izmir	-	-	-	-	-	-	20%	23%
Fulya	-	-	-	-	-	-	-	20%
Outpatient Clinics	12%	4%	-8pp	20%	-12pp	5%	5%	5%
GROSS MARGIN	14%	21%	7pp	18%	3pp	22%	24%	25%

Gross margin up by 7pp YoY, reaching 21% in 2005...

Gross margin is up by 7pp YoY, reaching 21% in 2005 on the back of limited increase in COGS. Our 2005YE expectation for gross margin was 18.4%. We expect that gross margin of the company will increase by a mere 2.1pp in 2006 due to high cost base for Bursa Hospital. Increase in gross margin will accelerate by 2009, reaching 28%, as the system generates adequate cash flow from sales to level off high cost base of additional investments. Delays in openings of the Maslak (from 4Q07 to 1Q08) and Fulya (from 1Q08 to 4Q08) Hospitals shifted the margin recovery from 2008 to 2009. As a result of final feasibilities, AHG also revised down the number of beds for Maslak (-20), Izmir (-50) and Fulya (-20). We do not perceive this downward revision as negative. On the contrary, we think that the group is looking for the optimum level of supply in order to get the highest return from the abovementioned regions.



Operating profit surged by 92% YoY to US\$13 mn...

Operating profit surged by 92% YoY to US\$13 mn, deviating from our estimate of US\$18 mn. 157% increase in operating expenses is mainly due to the reclassification of G&A items as a result of a change in accounting principles from CMB consolidated to IFRS consolidated. In addition to a change in reporting standards, higher personnel and amortization expenses stemming from Bursa investment also played an important role in higher than expected increase in operating expenses. AHG recruited personnel for Bursa Hospital by mid-2005 for training purposes. Thus, the company has undertaken personnel

expenses while the hospital is not generating cash. As a result of higher than expected increase in operating expenses, we downward revise our operating profit projection from US\$24 mn to US\$19 mn for 2006.

US\$ mn	2004	2005	Chg YoY	2005E	Deviation	2006E	2007E	2008E
Operating Expenses	-9	-23	157%	-11	107%	-29	-38	-46
Operating Profit	7	13	92%	18	-28%	19	35	45
Amortization&Depreciation	15	19	31%	19	4%	33	38	39
EBITDA	22	32	49%	37	-12%	52	73	84
EBITDA Margin	18.9%	19.0%	0.1pp	22.9%	-4pp	24.7%	27.0%	24.9%

49% YoY increase in EBITDA...

Acibadem's EBITDA reached US\$32 mn in 2005, corresponding to a YoY increase of 49%. EBITDA figure remained 12% below our expectations due to increase in operating expenses. As a result of a downward revision in our operating profit, we expect that the company's 2006E EBITDA will materialize as US\$52 mn, 10% below our previous EBITDA projection of US\$58 mn, despite addition of the Izmit hospital into the system.

Financial expenses surged by a bulk 347% in 2005 due to 147% increase in net debt position. Acibadem prefers to use 50% capital, 50% loan to finance its investments. For external financing requirement, Acibadem is acquiring long term loan from IFC. Lately, the company acquired US\$40 mn loan from IFC for the investment of three new hospitals in the pipeline. IFC loan has a grace period of 4 years and 12 years of maturity. In order to reduce the exchange rate risk, the loan will be used either in TL or Fx depending on the conditions of the Turkish economy. Acibadem used US\$15 mn of the loan. Despite lower than anticipated increase in financial expenses, we do not change our projection going forward.

Net income surged by 39% compared to 2004...

AHG posted a net profit of US\$13.9 mn, representing a 39% YoY growth, thanks to increase in total patients served and average revenue per patient. Net profit remained only 7% below our expectations, as negative effect of higher than expected operating expenses offset by lower than expected financial expenses and other income.

US\$ mn	2004	2005	Chg YoY	2005E	Deviation	2006E	2007E	2008E
Financial Expenses (net)	-1	-4	347%	-5	-32%	-8	-12	-13
Other Income (net)	4	7	55%	1	1041%	13	17	24
Net Profit	10	14	39%	15	-7%	22	37	47

We revised our net income expectation up by 18% on the back of higher than expected increase in revenue per patient and new Izmit investment. Revision of other income is also inflated our net income projections.

Income statement revisions...

Revised Income Statement US\$ mn	2006		2007		2008	
	Old	New	Old	New	Old	New
Net Sales	200	211	241	270	307	339
Cost of Sales	-162	-162	-197	-197	-242	-248
Gross Profit	38	49	44	73	65	91
Operating Expenses	-14	-29	-17	-38	-21	-46
Operating Profit	25	19	27	35	43	45
Financial Expenses (net)	-8	-8	-12	-12	-12	-13
Other Income (net)	4	13	12	17	18	24
Tax	-1	-2	-1	-4	-8	-9
Net Profit	20	22	27	37	41	47

Source: The Company, RJ Estimates

24% upside potential to renewed fair value of US\$804 mn... We upward revise our fair value by 16% to US\$804 mn based on modifications following 2005YE results and new investment announcement in Izmit. AHG has 24% upside potential to its revised fair value therefore, we reiterate our BUY recommendation.

US\$ mn	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
EBITDA	52	73	84	92	97	96	94	95
Change in WIC	-2	-4	-3	-3	-2	-1	0	0
Operating Cash Flow	54	77	87	95	99	98	94	96
-Tax	-2	-4	-9	-16	-18	-21	-22	-27
-Investment	32	55	26	10	10	10	10	10
Free Cash Flow	20	18	52	70	70	67	62	59
Risk Free Rate	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Equity Risk Premium	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Cost of Equity	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Cost of Debt	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%
Cost of Debt - after tax	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Weight of debt	35.9%	39.5%	36.3%	30.8%	26.2%	22.5%	19.5%	16.8%
WACC	9.7%	9.6%	9.6%	9.8%	9.9%	10.0%	10.0%	10.1%
Discount Factor	1.0	1.1	1.2	1.3	1.4	1.6	1.8	1.9
Discounted Flows	19.5	16.2	43.4	52.7	48.5	42.0	35.3	30.4
Terminal growth	5%							
EV	844							
Net Debt (12M05)	40							
Equity Value	804							
Upside	24%							

Fair value sensitivity analysis...

	Cost of Equity		
Growth	9.5%	10.5%	11.5%
4%	818	710	627
5%	953	804	695
6%	1,169	942	791

International peer comparison...

	Country	Mcap US\$ mn	P/BV	P/E 2006E	P/E 2007E	EV/Sales 2006E	EV/Sales 2007E	EV/EBITDA 2006E	EV/EBITDA 2007E
AHG	Turkey	651	7.3	29.8	17.6	3.3	2.5	13.3	9.2
Developed Countries									
Triad Hospitals	USA	3,770	1.2	14.8	13.2	1.0	0.9	6.8	6.1
Rhoen Klinikum	Germany	2,330	3.2	22.4	18.0	1.2	1.1	8.4	7.3
Generale De Sante	France	1,600	3.3	24.4	18.9	1.1	1.0	8.2	7.7
Average				20.5	16.7	1.1	1.0	7.8	7.0
Median				22.4	18.0	1.1	1.0	8.2	7.3
Prem/Disc to average				45%	5%	205%	150%	71%	30%
Prem/Disc to median				33%	-2%	209%	148%	63%	25%
Emerging Countries									
Apollo Hospitals	India	547	6.7	47.4	32.6	3.6	3.0	13.1	11.2
Parkway Holdings	Singapore	1,283	4.9	32.3	24.1	4.5	4.2	12.9	11.7
Pantai Holdings	Malaysia	339	2.0	19.3	13.2	1.5	1.4	7.2	6.1
Average				33.0	23.3	3.2	2.9	11.1	9.6
Median				32.3	24.1	3.6	3.0	12.9	11.2
Prem/Disc to average				-10%	-24%	3%	-14%	21%	-5%
Prem/Disc to median				-8%	-27%	-8%	-19%	4%	-18%

Source: Bloomberg, RJS

Balance Sheet				
US\$ mn	2005	2006E	2007E	2008E
TOTAL ASSETS	197	275	360	429
CURRENT ASSETS	38	119	183	263
Cash and Banks	2	72	120	181
Marketable Securities	4	14	21	30
Trade Receivables	17	19	25	31
Due from Related Parties	8	6	8	10
Inventories	4	5	6	7
Other Receivables and Current Assets	3	3	3	3
LONG TERM ASSETS	158	156	177	167
Long term trade receivables	0	0	0	0
Property, plant and equipment (net)	147	110	128	115
Intangible fixed assets (net)	2	36	39	42
Other long term assets	4	4	4	4
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	197	275	360	429
CURRENT LIABILITIES	54	56	66	75
Short Term Borrowings	10	13	18	20
Trade Payables	23	22	26	33
Other payables and accrued expenses	4	4	4	4
LONG TERM LIABILITIES	43	97	133	146
Long Term Borrowings	36	86	124	136
Long term trade payables (net)	1	1	1	1
Other Long term liabilities	0	3	2	3
MINORITY SHAREHOLDERS'	10	10	10	10
Minority Shareholders'	10	10	10	10
SHAREHOLDERS' EQUITY	90	112	151	199
Capital	40	40	40	40
Legal reserves	16	30	52	89
Inflation Adjustment	19	20	21	22
Net Profit	14	22	37	47

Income Statement				
US\$ mn	2005	2006E	2007E	2008E
Net Sales	170	211	270	339
Cost of Sales	-135	-162	-197	-248
Gross Profit	36	49	73	91
Operating Expenses	-23	-29	-38	-46
Operating Profit	13	19	35	45
Financial Expenses (net)	-4	-8	-12	-13
Other Income (net)	7	13	17	24
Income before taxation and monetary gain	15	24	41	56
Taxation	-1	-2	-4	-9
Income before monetary gain	14	22	37	47
Monetary gain	0	0	0	0
Net Profit	14	22	37	47
Minority Interest	0	0	0	0
Other Extraordinary Income/Expense (net)	0	0	0	0
Net Profit	14	22	37	47

Buy: Stocks with a forecast 12mth (US\$) absolute total return of greater than %15%
Hold: Stocks with a forecast 12mth (US\$) absolute total return of between 15% and -15%
Sell: Stocks with a forecast 12mth (US\$) absolute total return of less than -15%