

Pick of the week



Apollo Hospitals Enterprise Limited

Recommendation

Buy

Time Period

12 Months

Current Price

₹1167

Target Price

₹1820

Potential Upside

56 %

Investment Argument

- KIE expects Apollo Hospitals (APHS) to benefit from an improving maturity profile, even as the near-term outlook is challenging given lower volume of international and domestic travel patients, as well as deferment in OPD footfalls and elective surgeries, though, KIE expects a full demand recovery in 2HFY21.
- KIE expects APHS to face significant pressure in near-term earnings on account of COVID-19, with the impact likely at multiple levels: 1) Decline in international patient volumes; 2) Decline in out-patient visits; 3) Deferment of elective cases; and 4) Shift in ordering patterns could hurt SAP growth.
- As per KIE estimates, 60-65% of costs in hospitals are fixed in nature; consequently lower utilization will lead to material decline in EBITDA margin. KIE believes the impact will likely be transitory, and expects recovery in operations from 2QFY21 with normalization of business in 2HFY2.
- The pace of recovery depends on resumption of international travel, particularly, from the Indian sub-continent, Middle East and South East Asian regions. KIE has cut EBITDA estimates for FY20 by 8% and FY21 by 18%. KIE EBITDA estimates for FY22E are largely unchanged, though deleveraging and margin expansion at new units will likely be delayed by 12 months.
- Given the recent sharp correction KIE has upgraded the stock to BUY with revised fair value of Rs1,820.