



Stock Code: AMSL
Financial Year End: 31st March
Recommendation: Buy (Long Term)
Share Price 11-01-2010 Rs 10.75

Asiri Surgical Hospital Plc

About The Asiri Group

The Asiri Group Currently consists of four hospitals, of which three are situated within the Colombo city limits namely Asiri Hospital Plc, Asiri Surgical Hospitals Plc and Asiri Central Hospital. The other is based in Matara which is the Asiri Hospitals Matara (Pvt) Limited. The mile stones of the group of hospitals are as follows:

Asiri hospitals Limited, situated in Narahenpita Colombo was incorporated in 1980. The hospital obtained listing at the Colombo Stock Exchange in 1986, in addition it opened up the subsidiary company Asiri Diagnosis Services (Pvt) Limited in 1995.

Subsidiaries of Asiri Hospitals Plc

- Asiri Surgical Hospital Plc
- Asiri Diagnosis Services (Pvt)Limited
- Asiri Hospital Matara (Pvt) Limited
- Asiri Central Hospitals Plc

Asiri Medical Services (now known as the Asiri Surgical Hospital Plc) is a BOI approved subsidiary incorporated in 2000 and was opened as the new surgical hospital in 2003. The hospital got listed in the Colombo stock exchange in 2004, and changed its name to ***“Asiri Surgical Hospitals Limited” in 2006.*** With Asiri Hospitals Plc holding on to 29.55%, as the main share holder.

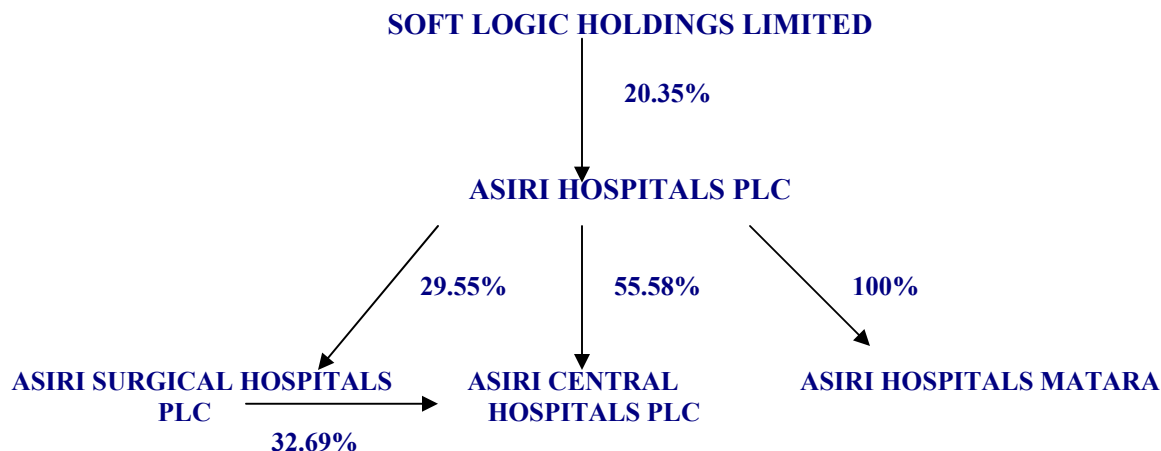
The Asiri Group acquired a controlling stake of Asha Central Hospital in 2007. Asiri Hospitals Plc and Asiri Surgical Hospital Plc directly holds on to 55.58% and 32.7% respectively. The hospital is now known as ***“Asiri Central Hospital Limited”.*** The Asiri group is in the verge of completing another large scale hospital project named ***“The Central”*** down Norris Canal road. The Central Hospital is collectively held as follows: *

- Asiri Surgical Hospital Plc 15.1%
- Asiri Hospital Plc 14.2%
- Asiri Central Hospitals Plc 70.7%

The central hospital which is scheduled for completion during the first half of 2010, with a capacity of 270 beds and will be the latest addition to the Asiri Group.

Issued share Quantity	528,457,545
CDS Quantity	474,211,585
Share price as at 11-01-2010	Rs 10.75
EPS (F/Y 31st March 2009)	0.26
Forecasted EPS (F/Y 31st March 2010)	0.43
Lead PER	25x
Net Asset Value	2.77

The Group structure



The Health Industry in Sri Lanka

The Sri Lankan health industry is in the development stage, but can be rated well above many countries in the world based on, the Hospital standards, technology used, and availability of hospitals and well trained educated staff that includes doctors, Nurses etc. With the commitment of the GOSL to provide free health services to citizens, the standard of this industry has turned out to be satisfied. Depending on the type of medicine that is practiced in Sri Lanka the industry can be divided in to two – Allopathatic and Ayuruvedic provided by both private and public health services. In addition with the current benefits given from the private sector organization and insurance polices have greatly increased the use of private health facilities.

There are 612 public sector hospitals and 417 central dispensaries. In addition there are approximately 182 private hospitals, further more there are more than 50 Ayuruvedic Medical Service centers and around 300 dispensaries.

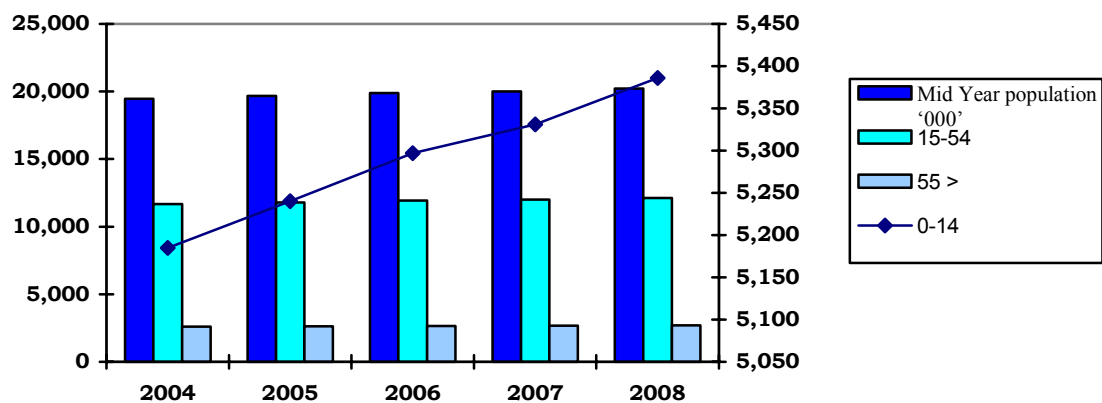
Other Statistics-Public Health

Hospital beds per 1000 persons	3.3
Per Person Doctor number	1552
Nurses per 10,000 persons	11.4
Government Expenditure on health % per GDP	1.7

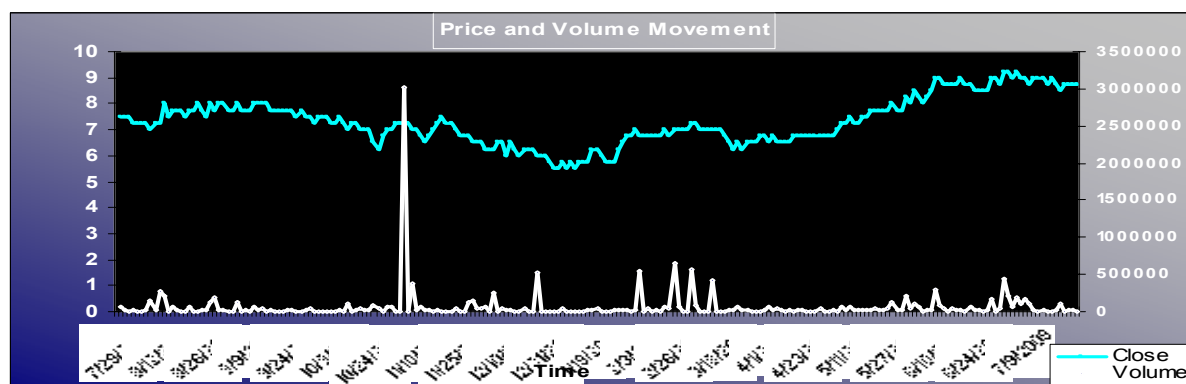
Private Hospital Bed Capacity

Durdands Hospital	235
Nawaloka Hospital	400
Asiri Hospital	-
Asiri Surgical Hospital	100
Apollo Hospital	254
Asiri Central Hospitals	100
Delmon Hospital	N/A
The Central Hospital *	270
Oasis Hospital	143

Demography	2004	2005	2006	2007	2008
Mid Year population '000'	19,462	19,668	19,886	20,010	20,217
0-14	5,185	5,240	5,297	5,331	5,386
15-54	11,678	11,801	11,933	12,006	12,130
55 >	2,599	2,627	2,656	2,673	2,701
Growth Population	1.2	1.0	1.1	1.1	1.0



Asiri Surgical Hospitals Plc



Board of Directors

- Mr. A K Pathirage Chairman/ MD
- Dr S Selliah Deputy Chairman
- Dr K M P Karunaratne Director/COO
- Mrs. D Wimalasurendre Director Administration
- Mrs. S D Nimalasuriya Director Finance

Financial Indicators

Asiri Surgical Hospitals PLC							
Financial review							
Rs 000	2006		2007		2008		2009
Revenue	530,533	36	718,972	25	896,373	28	1,149,832
Cost of sales	(261,938)	28	(334,930)	31	(440,323)	18	(519,875)
Gross Profit	268,595	43	384,042	19	456,050	38	629,957
other Income	318	1,075	3,736	29	4,808		15,176
Admin and Other Expenses	(129,473)	25	(162,267)	31	(212,259)	24	(263,434)
PBIT	139,440	62	225,511	10	248,599	54	381,699
Finance Cost	(245)	1,634	(4,248)	2,884	(126,777)	40	(177,130)
Share of Associate	-		-		(9,838)	181	(27,640)
PBT	139,195	59	221,263	(49)	111,984	58	176,929
Taxation	(64)	784	(566)	200	(1,700)	236	(5,717)
PAT	139,131	59	220,697	(50)	110,284	55	171,212
EPS	0.25		0.36		0.18		0.26
Net Assets	3.12		2.06		2.12		2.77
NP Margin	26%		31%		12%		15%
ROE	13%		19%		9%		10%
Debt/ Equity	128%		91%		91%		54%

The hospital for the Financial year ended 31st March 2009 recorded a turnover growth of 28% that exceeded Rs 1.1bn. Also during the year under review it managed to increase the bed capacity via adding the new cardiac unit. Further the hospital is currently into expansions, therefore expenses such as the administration as well their finance costs increase by 24% and 40% YoY respectively. Finance cost increased significantly as AMSL obtained further loans during the year to facilitate the cardiac monitoring and resuscitation system. Further other loans in their portfolio include facilities obtained to settle on the share acquisition of Asiri Central hospital their associate company, to retire import bills under LC contracts, expansion of Phase II of the hospital complex and daily operations.

Therefore AMSL had a loan portfolio (excluding the bank O/D and leases) of Rs 756mn by the end of the financial year 2009. Borrowings brought in a gearing ratio of 54% in the immediate financial year that reduced from 91% a year ago. The capital infusion of 58mn shares via a rights issue increased share holders funds that could have contracted the debt to equity ratio (Gearing). It should be pointed out that the hospital managed to edge up 55% in their profits to record 171mn rupees for the financial year 2009 resulting an EPS of Rs 0.26.

earnings of AMSL is expected to boost in the upcoming financial years as a result of increase in their bed capacity, health care services offered and additional future revenues that can be earned from the Associate company “ The Central”. Further with the wide variety of health care solutions such as being specialized in Laboratory testing, CT scanning, Physiotherapy ,4D ultra sound real scanning etc will give an advantage over other hospitals.

Historical Equity Information

Dividends

Security	Rate & Remarks	Announcement	Date Of Ex	Date Of Payment	Cum Price	Ex Price
AMSL	7.5% SECOND INTERIM	20-Jun-05	23-Jun-05	1-Jul-05	3.25	3.25
AMSL	10% INTERIM DIVIDEND	28-Dec-05	2-Jan-06	12-Jan-06	3.00	2.75
AMSL	12.5% FIRST INTERIM DI	12-Jul-06	25-Jul-06	4-Aug-06	5.25	5.75
AMSL	12.5 % FINAL DIVIDEND	28-Nov-06	14-Dec-06	27-Dec-06	7.75	8.00
AMSL	RS. 0.125 P/S (TAX)	28-Jun-07	10-Jul-07	20-Jul-07	8.00	8.00
AMSL	RS.0.075 PER SHARE - I	2-Apr-08	29-Apr-08	6-May-08	8.00	8.00
AMSL	RS. 0.075 PER SHARE -	2-Dec-08	4-Dec-08	17-Dec-08	6.25	6.25
AMSL	RS. 0.075 PER SHARE	22- Jul-09	6-Aug-09	13- Aug-09	-	-

Rights Issue

Security	Number of Shares Offered	Date Announced	Proportion			Cum Price
ASIRI SURGICAL	58,717,505	3-Jan-08	1	For	8	8.70

Comparison with its peers

Financials as at 31st March 2009

	Asiri Surgical Hospital	Asiri Hospital	Durdands Hospital	Appollo Hospital	Asiri Central Hospital	Nawaloka Hospital
Revenue	1,149	3,338	2,171	2,469	620	2,492
YoY Growth	28%	31%	15%	28%	44%	12%
Profit After Tax	171	198	169	41	-84	-108
YoY Growth	55%	42%	15%	-*	118%*	51%
EPS	0.26	0.87	5.50	0.18	-3.78	-0.15
DPS	0.15	1.50	1.50	-	-	-
Net Asset Value	2.77	36.87	68.91	8.94	37.75	2.79
Last Traded Price	6.75	55.00	53.00	15.25	60.25	2.10
PER	25x	63x	9.6x	84x	-	-

* Loss increased by 118% at Asiri central hospital while Apollo recovered from a loss incurred the previous year in addition Nawaloka losses also increased by 51% as a result of the loss incurred in their associate company Galadari .

According to the above analysis except for Durdands Hospital (CHL) other hospital stakes are trading relatively on high P/E ratios, this is as a result of low profits generated as a result of very high level of costs incurred on medical drugs Medical tools etc on daily operations and administration expenses that includes wages, utility charges. Meanwhile with the recent expansions taking place in almost every hospital has brought in heavy financial burden, sets off against the earnings generated. Therefore current earnings per share is less than Rs 1.00. From AMSL point of view it carries a PER of 25 times, which is well above its peers (excluding Durdands Hospital) with a revenue growth of 28%, further reported the highest growth in profit which is 55% during the immediate financial year. However based on the Net Assets value of Rs 2.77, currently the share is over priced, but it should be noted that the Net Assets represents a historical book value. In addition AMSL has been paying dividends since 2005.

Profit forecast and Recommendation

Rs 000	2009	2010F
Revenue	1,149,832	1,494,782
Cost of sales	(519,875)	(649,844)
Gross Profit	629,957	844,938
other Income	15,176	8,164
Admin and	(263,434)	(329,293)
other Expenses		
PBIT	381,699	523,809
Finance Cost	(177,130)	(230,269)
Share of Associate	(27,640)	(24,876)
PBT	176,929	268,664
Taxation	(5,717)	(8,597)
PAT	171,212	260,067
EPS	0.26	0.43

Revenue for the up coming financial year is forecasted to be at a growth rate of 30% over the year under review. It has taken in to consideration the generalized factor of increasing demand for private sector healthcare services as a result of, benefits received from company as well as health plans offered by insurance covers and the increase in healthcare charges. Cost of sales have been anticipated at Rs 649mn, which includes wages on medical staff that includes Doctor Charges, nurses and attendants. Therefore forecasted final profit is Rs 260mn up by 52% against the Rs 171mn in the F/Y 2008/09, resulting an EPS of Rs 0.43.

This hospital has its future earnings potential with the increase in capacity and future profits generated from its associate. However currently the hospital has the burden over borrowings, obtained for expansions and purchase of medical equipment. Currently the interest cover is 2.1 times of the EBIT which increased merely from previous years 1.96 times.

With the current developments taking place in the private health Care services, the pattern of life, healthcare promotions offered via insurance policies indicates an upside potential. Further with the insufficient facilities provided by the government sector health services private hospitals has a greater potential. Therefore this counter can be recommended as a ***long term investment*** focusing on the future growth potential.

Top Share Five Holders of the Company as at 30th September 2009

Name of Shareholder	No of Shares	%
Asiri Hospitals Ltd	156,140,941	29.55%
Sri Lanka Insurance Corporation Ltd - General Fund	121,409,398	22.97%
Mr. D K Subasinghe / Mrs. S N Subasinghe	52,159,753	9.87%
Softlogic International (Pvt) Ltd	20,337,133	3.85%
Sri Lanka Insurance Corporation Ltd – Life Fund	15,493,000	2.93%

- Sources of data are the Central Bank website/ Dep't of Census and Statistics Sri Lanka / Company annual reports

* Please note that the Holding Percentage of The Central Hospital by the Asiri Group will dilute simultaneously as to an agreement entered into with John Keells Holdings Plc, Union Assurance Plc and Aureos South Asia Fund LLC whereby the investors have agreed to participate in a proposed private placement. Thereby reducing percentages held by the Asiri group collectively.

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