HOSPITALS FEELING THE PAIN

By Shoks Mzolo

The three largest locally listed hospital groups have all seen double-digit dives in their share prices in the past 12 months. While this is hurting now, analysts say it’s also a good time to stock up for the longer term.

The rand’s strengthening against the pound in the interim period to end March weighed on Netcare’s earnings, with revenue declining 10% to R16.3bn, 13% been a challenging six months of trading both in South Africa and the United Kingdom,” Netcare CEO Richard Friedland said. Netcare is the majority shareholder in GHH, its UK subsidiary. “We’re not going to do a transaction for the sake of it. We’re mindful of shareholders watching that and we remain interested in concluding one but only on the right terms.”

Netcare reported a 25% decline in operating profit to £56m in the UK in the six months to end March. An increase in rental costs was partly to blame for this downward pressure on margins, it said. The National Health Service (NHS), a British government universal care plan, and a major Netcare customer, is limping back on track of an emergency response, training facilities, primary healthcare centres.

RATING:
IRESS-COMPILED ANALYST
OPERATIONS:
Market capitalisation:
1-year total return:
Price/earnings ratio:

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3.6% year-on-year over the period. Taking lessons from its peers on the local front, Netcare adapted R1.3bn to bag Richard Friedland’s views. “Mediclinic and its UK unit BIM. The Financial Times reported in April that the service was mulling borrowing from hedge funds. It is estimated that NHS Sustainability and Transformation Plans would require close to an extra £10bn of investment in facilities and equipment, the paper said. “Yet for two consecutive years the NHS capital budget has been raided to fund day-to-day running costs.”

Netcare’s chief financial officer Keith Gibson looks beyond extended waiting periods for surgery (now said to exceed 18 weeks) as budget cuts take their toll. “Growing NHS waiting lists, along with the macroeconomic conditions we face in the UK,”

Mediclinic

GEOGRAPHIC FOCUS: Switzerland, Southem Africa, Middle East, UK

OPERATIONS:
Private hospitals and clinics

IRESS-COMPILED ANALYST
RATING:
3 hold, 2 buy

Like Life Healthcare, Mediclinic has come under fire for some of its acquisitions. “Mediclinic overpaid for the 2016 acquisition of Al Noor,” Electus fund manager Neil Brown says, citing the £1.4bn deal struck last year. “While the Al Noor deal gave Mediclin a sought-after primary healthcare listing in London, there is large regulatory uncertainty in Abu Dhabi with the recently introduced 20% co-payments required by locals for private hospital treatments.”

These factors have led to Mediclinic International’s management revising profit guidance down three times in the last six months, laments Mila Mafanya, head of equities at Afena Capital. Following its recent share price collapse, Mediclinic is now a relatively priced relative to Electus’s valuation for longer-term investors, Brown says. At the time of writing on 12 June, Mediclinic was trading at R130.58 a share, way off the R216 all-time high reached in July 2016 following its purchase of Al Noor. Organic growth and acquisitions have multiplied Mediclinic’s footprint from four hospitals at the time of JSE-listing in 1986 to more than 100 hospitals and clinics in Southem Africa, Switzerland and the Middle East.

Counting in Mediclinic’s favour are its “unique in the region,” and high exposure to complementary services such as medical, acute rehabilitation and renal dialysis. “Mediclinic overpaid for the 2016 acquisition of Al Noor,” Electus fund manager Neil Brown says, citing the £1.4bn deal in a research note. “The company continues to be particularly well-positioned to capture growth in the mental healthcare market, which has increased by more than 20% per annum over the last five years.”

The group increased revenue by 3% to £2.2bn in the years ended March, driven in part by the Al Noor acquisition. Ebitda margins declined from 20.4% in 2016 to 18.2%, while earnings per share increased by 5% year-on-year to 31 pence. CEO Danie Meintjes said the group “continues to see growth in the area of mental healthcare services which is underpinned by an ageing population, growing disease burden and technological innovation”. 
Life Healthcare

GEOGRAPHIC FOCUS:
South Africa, UK, India, Europe

OPERATIONS:
Hospitals, complementary services, diagnostics, healthcare services

IRESS-COMPILED ANALYST RATING:
3 buy, 6 hold

Releasing its results for the first half to end March, Life Healthcare reported a 71% drop in headline earnings per share (HEPS) to 26.7c as its expansion into the UK weighed on earnings. The decline in earnings was in large part due to one-off items related to its R14.3bn acquisition of Alliance Medical group, a diagnostics firm in the UK. One-off costs included transaction fees of R254m and acquisition funding costs of R362m.

The transaction, which was funded by a rights issue of R8.8bn and debt funding, will add pressure, said Electus fund manager Neil Brown.

Mila Mafanya, head of equities at Afena Capital says Life appears to have “overpaid” for Alliance, a London-based group with activities in 10 European states, including Norway. During the bidding process “suitors were enthused by the prospects of the business given that it had doubled profits in the prior four years”. But he also recalls the “considerable uncertainty” over the financing. “When the equity capital raise was finally announced the terms of the rights issue were less favourable than the market expected; the currency had moved.

Life CEO André Meyer, who announced on 12 June that he’ll be stepping down at the end of the month, asserts it would help to boost the company’s revenue and earnings before income, tax, depreciation and amortisation (ebitda) outside Southern Africa – the home base. Added to Botswana and SA, Life is currently present in India and Poland. That market has been anything but a success, though. While revenues keep rising at Polish asset Scanmed, ebitda margins are softening.

Meyer is upbeat, citing the group’s dream to “establish a sizeable international business” even as conditions in SA and elsewhere “are not expected to improve substantially in the foreseeable future and we expect continued pressure on acute hospital volumes”. Overall, revenue was up 22.6% to R9.6bn, while ebitda increased 15.2% to R2.4bn. Net profit tanked 73% to R125m against R1.7bn.

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