

Ramsay plays down Brexit risks as British unit shows signs of recovery



Carrie LaFrenz

Updated Mar 1, 2019 — 8.51am, first published at Feb 28, 2019 — 9.28am

Save Share

Ramsay Health Care boss Craig McNally has played down risks to the company's British business amid Brexit uncertainty, just as the division is showing shoots of recovery after several difficult years.

The looming withdrawal of Britain from the European Union is likely to affect patients and the country's National Health Service.

While the British division comprises less than 10 per cent of revenue for Australia's largest private hospital operator, Ramsay has been hindered by challenges overseas, particularly in Britain and France. In Britain, the NHS makes up 80 per cent of its volumes, and it is seeing less work outsourced to the private sector.



Ramsay Health Care CEO Craig McNally has warned investors revenue growth will not return to previous highs. Janie Barrett

However, on Thursday Mr McNally said the company was on track to deliver its full-year guidance after an overall solid first-half performance, with more positive signs emerging in Britain, although "Brexit may pose some challenges in the short term".

"Quarter two was better, our volumes increased, we anticipate we will continue to see that in the second half," Mr McNally said.

Mr McNally told *The Australian Financial Review* the two biggest effects of Brexit on the business were staffing and supply of consumable goods and medicines.

"It's the uncertainty, which means people are not coming in the same numbers to the UK as they did previously, as they are not clear about the future," he said. "The end result of this is a greater reliance on agency staff, which has a cost impact on the business."

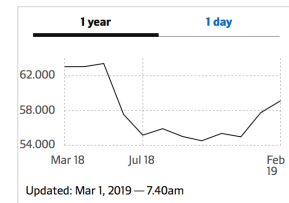
Mr McNally said he was confident about maintaining supplies of goods to hospitals, given Ramsay's global supply agreements.

In the longer term, he was optimistic given the British government's commitment that treatment wait lists would not increase and its planned [capital injection](#) of £20 billion (\$37.3 billion) to the NHS, which he said was unlikely to be cut given the NHS funding "crisis".



Related Quotes

RHC \$64.78 -0.00 (0.00%)



Updated: Mar 1, 2019 — 7:40am

[View RHC related articles](#)

LATEST STORIES

For the love of Ita: Can the Buttrose factor save the ABC

4 mins ago

Ramsay plays down Brexit risks as British unit shows signs of recovery

4 mins ago

How to decode the spin in reporting season

7 mins ago

ASX poised to rise at open, manufacturing data check ahead

21 mins ago



SPONSORED

Securing future economic development through neonle

Growth slows down

Mr McNally's comments came as the \$13.1 billion company confirmed [prior guidance](#) for core earnings per share growth this year of up to 2 per cent, including a contribution from its recent acquisition, Capio. This corresponds to earnings growth of 4 per cent to 6 per cent, or 10 per cent to 12 per cent including Capio.

This is a marked slowdown compared with double-digit EPS growth in years past.

In Australia, Ramsay's main earnings driver, private hospitals, faced structural challenges as consumers dropped private health cover amid rising premiums and costs.

Mr McNally warned investors revenue growth would not return to previous highs. "Volumes growth is still there, and we are above industry, but it's more subdued than over the past 10 years," he said. "Case mix is an important part of that. As a trend for some time we are seeing higher growth in lower acuity services, which impacts revenue growth."

		6 months ended 31/12/2018 \$000*	6 months ended 31/12/2017 \$000	% increase/ (decrease)
Revenue and other income (Core) excluding AASB15 adjustment	(1)	5,111,236	4,447,950	14.9%
AASB15 adjustment**		60,837	-	
Total revenue including AASB15 adjustment		5,172,073	4,447,950	16.3%
Profit before disposal of assets, finance costs, tax, depreciation, amortisation and non-core items (Core EBITDA)		728,637	663,806	9.8%
Profit before finance costs, tax and non-core items (Core EBIT)		509,916	470,422	8.4%
Core net profit after tax attributable to owners of the parent	(1),(2)	290,774	287,974	1.0%
Non-core items after tax attributable to owners of the parent	(1)	(20,682)	(41,438)	
Net profit after tax for the period attributable to owners of the parent ***		270,092	246,536	9.6%

Ramsay Health Care's interim financial results.

He said while brownfields projects such as hospital upgrades – on track to deliver \$242 million of investments this year – would contribute to growth, affordability for consumers remained an issue.

Ramsay continued to increase market share in day and admitted patients at its Australian hospitals, where it delivered 5.7 per cent lift in earnings to \$484.6 million in the half, while sales increased 4.8 per cent to \$2.6 billion, he said.

Ramsay's North Shore Private Hospital had been affected by Healthscope's new hospital opening at [Northern Beaches](#), he said.

The company posted a 9.6 per cent rise in first-half 2019 net profit to \$270.1 million. Core net profit edged up 1 per cent to \$290.8 million. Revenue for the half rose 14.9 per cent to \$5.12 billion, but was up 6.1 per cent excluding Capio.

Earnings before interest, tax, depreciation and amortisation climbed 9.8 per cent to \$728.6 million. Stripping out Capio's contribution earnings gained 7.2 per cent.

Showing resilience

Contact Asset Management director Will Culbert said the result was solid in a year characterised by external headwinds.

"To be able to grow Australian EBITDA by almost 6 per cent in a market with several structural headwinds around issues such as private health insurance shows the resilience of the business," he said.

"I also think the result underscores how important Ramsay's consistent investment into brownfield expansion has been. We think it is critical that companies continue to invest in themselves."

Villawood
properties
Communities Designed for Living

Group Chief Executive Officer

Join Australia's leading residential land developer to implement systemization and structure whilst maintaining the family-feel and cultural bonds which has made Villawood Properties the success they are today.

Apply today

Advertisement

ENTER NOW & SAVE \$25

The Sydney Morning Herald
half marathon

Advertisement

Ramsay is now a serious global player with 480 sites in 11 countries. It has market-leading positions in Australia, France and Scandinavia and last year bought Sweden's Capiro, which expanded the company's presence in the Nordic region and Germany.

Revenue from British unit gained 1.6 per cent to €209.6 million (\$333.87 million) in the first half of 2019 while earnings before interest, taxes, depreciation, amortisation, and restructuring or rent costs (EBITDAR) tumbled 9.2 per cent to €44.8 million.

Continental Europe revenue was up 25.7 per cent to €1.3 billion, while EBITDAR gained 19.1 per cent to €231.3 million.

"In France, the recently announced tariff increase was a clear positive for the sector," Mr McNally said.

No surprises

Montgomery Investment Management joint portfolio manager Andreas Lundberg said it appeared lower growth was now built into market expectations.

"Ramsay is not going to be able to produce that 8 or 10 per cent growth they had before. Overall it's a decent result – there are no surprises in the downside," he said.

Mr Lundberg said the positive share price reaction, which on Thursday ended up \$3.61, or 5.9 per cent, to \$64.78 may be due to short investors covering their positions.

Mr McNally said he expected Capiro to be core EPS accretive within two or three years but given the timing of acquisition and delays to completion, he expected it to be slightly EPS dilutive this year.

Mr Lundberg added that a disorderly Brexit may affect Britain's healthcare system, but people would still get sick and the population was ageing.

He pointed to the rest of the Europe business as a game-changer for Ramsay. "This is interesting, not just from an expansion perspective but also the potential for technology transfer to the rest of the group with associated cost savings, as Capiro is one of the most advanced healthcare companies from a technological sense," he said.

Mr Culbert was happy with the increased interim dividend of 60¢ per share fully franked, up from 57.5¢ in the year-earlier.

"In our minds, the strong track record of dividend increases year after year highlights that this is a well-managed business with solid fundamentals," he said.

