Strategy ails Advanced Health

● *Annual losses after tax almost triple as day-hospital group bumps into regulation in struggle to gain traction in SA*

Michelle Gumede
Health and Education Writer

The growth strategy of day hospital group Advanced Health has pushed up annual losses almost threefold, but it is confident it will reap rewards in the medium to long term.

The company, which listed on the JSE in 2014, has 10 operational day hospitals in SA and four in Australia. It recently raised R85m in a rights offer, which it said it would use to repay debt and fund new facilities planned for 2018.

On Wednesday the group's annual financial statements for the year ended June 2017 showed the loss at its South African operation widened to R22.5m, from R20.5m a year ago. The Australian operation made a R21m profit — almost four times the R5.7m profit of a year earlier.

Graphic: RUBY-GAY MARTIN Source: BLOOMBERG

The hospital group suffered a R48m after-tax loss compared with a loss of R15.7m in 2016. CEO Carl Grillenberger said the group's presence in the Australian market was stronger than in SA because regulations there made it easier for private healthcare firms to operate. "They compete on price and on quality of service, and people go for it," said Grillenberger. "In SA there are too many restrictive situations, especially coming from the larger hospital groups that don't want to lose that type of work from their own theatres even though it's costing the patient more."

He said that while medical aid schemes such as Discovery had incentivised the use of day hospitals, patient levels were still relatively low.

Advanced Health group operations manager Bibi Goss-Ross said regulations were needed to allow surgeons to work at both acute and day hospitals without being penalised.

Portfolio manager at Gryphon Asset, Casparus Treurnicht, said Advanced Health's expansion drive and cash drain had caught investors off guard and the group still needed to prove that its business model would work in SA.

The hospital group is not paying a dividend.

Grillenberger said the group would temper its expansion plan of having 20 hospitals by 2020. It planned on adding two more facilities in SA during 2018, bringing the number of day hospitals to 12 while it allowed its existing operations to recover and rev up profitability.

"It is no use developing more facilities and incurring bigger losses," said Grillenberger, adding that it could take up to three years to see rewards from existing facilities.

Treurnicht said the million-dollar question now was when Advanced Health would finally show a profit.

"It will eventually be a good share to own but greedy investors paid too much.

"Never overpay for a business that still needs to prove itself," he said.

gumedem@businesslive.co.za

PERFORMANCE UPDATE

Aspen earnings return to health

Michelle Gumede

Aspen Pharmacare expects an improvement in earnings for the year to June following the devaluation of its Venezuelan business in the previous year, among other factors.

On Wednesday, the company said the increase in earnings was lifted by the one-off negative effect in the same period a year earlier arising from the devaluation of Aspen's Venezuelan business.

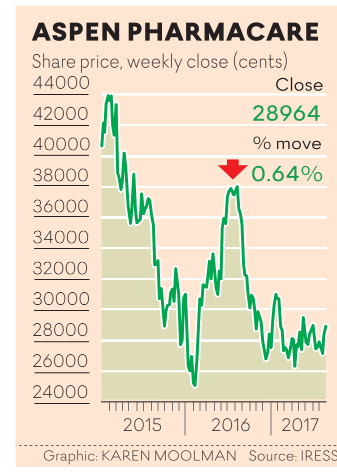
There had also been higher intangible asset impairments, which were offset by capital profits realised from the disposal of noncore businesses and products.

The company said headline earnings per share were expected to increase between 43% and 48%, valued at between 1,271.3c and 1,315.7c a share compared with 889c previously "attributable to the devaluation of Aspen's Venezuelan business in the prior year".

Earnings per share would rise between 16% and 21% from 945.4c a share.

Casparus Treurnicht, portfolio manager at Gryphon Asset Management, said there were many issues in the business, including the economic difficulties and hyperinflation in Venezuela, that had caused it to cease trading since late 2015.

Strikes and supply-chain issues with its South African operations had also resulted in setbacks for the local segment. Treurnicht emphasized that



Graphic: KAREN MOOLMAN Source: IRESS

excessive debt raised in the US and Australia placed stress on the balance sheet when the rand blew out in early 2016.

"I understand they've taken out some forward contracts to mitigate this issue."

Aspen's results for the year to end June are expected to be published on September 14.

The share price was down 0.64% to R289,64 at the JSE's close, having been in decline for two consecutive weeks.

Africa's largest pharmaceutical company has a market capitalisation of more than R132bn and has an expanding presence in Latin America, Asia, Europe and Russia.

Aspen has acquired the marketing rights to a portfolio of anaesthetic drugs from AstraZeneca and GlaxoSmithKline over the past 12 months to make it the largest anaesthetics seller outside the US.

gumedem@businesslive.co.za

BRIEFING

Holding on to high-quality tenants a focal point for Redefine

Alistair Anderson
Property Writer

Retaining tenants has been Redefine Properties's priority in 2017, says the CEO of the large real estate investment trust, Andrew Konig.

Redefine had spent resources on improving its portfolio to keep high-quality tenants which had many choices of landlord, Konig said at a pre-close briefing. The South African economy and political landscape were unpredictable. Lots of attention had to be given to tenants in a market where growth opportunities were scarce, he said.

Redefine's 9.4% forward yield was expensive and punitive, he said. This was especially because the R186 government 10-year bond was sitting at 8.6% and Redefine had, up to mid-May, tracked the R186 very closely, Konig said.

On Redefine's retail assets, he said its shopping centres were experiencing the addition of more food retailers at the expense of apparel stores.

Shoppers were visiting less, but trading densities were up. Large high-price items were being replaced by a spend on what people needed, Konig said.

Redefine wanted to hold on to its stakes in Redefine International, which invests in western Europe, and Cromwell, which invests in Australia. These investments made sense for Redefine and were in good hands, he said.

Redefine had also maintained its 40% ownership of Echo Polska Properties, a company that owns retail centres and offices in Poland.

Business and consumer confidence were low in SA, Konig said. Redefine had adapted its strategy in the prolonged uncertain operating environment.

Redefine was on track to deliver its market guidance of 7%-8% for its 2017 financial year. It has about R4bn of facilities for further acquisitions locally or abroad. The company will present its annual results for the financial year to August on November 6.

The Redefine pre-close presentation had emphasised the sentiment of weak domestic growth, said Jay Padayatchi of Meago Asset Managers. Various listed property groups were facing difficult conditions, he said.

andersona@businesslive.co.za