Mediclinic has a clean bill of health after Swiss regulatory hiccups – Moneyweb 15 November 2019

Analysts had a muted reaction to Mediclinic's results for the six months to end-September on Thursday. They say the results were largely in line with the trading update the company issued last month.

Mediclinic CEO Dr Ronnie van der Merwe said management is pleased with the half-year performance, which saw all three divisions – in Switzerland, Southern Africa and the United Arab Emirates (UAE) – growing volumes, revenue and Ebitda (earnings before interest, taxes, depreciation, and amortisation).

Overall Ebitda stood at £222 million, up 4% from the comparable period last year.

Roy Campbell, an equity analyst at RMB Morgan Stanley, said the solid cash flow and earnings per share – which remained flat at 10.3 pence – was slightly ahead of his expectations.

"A solid cash flow conversion has also allowed a CHF [Swiss franc] 86 million paydown of Switzerland debt," he said. Campbell noted that these were the main "new news aspects of today's results", which were incrementally positive.

UBS analyst Kane Slutzkin noted that Mediclinic is faced with regulation hurdles in all its operating regions:

- South Africa – the Competition Commission and proposed National Health Insurance (NHI).
- Switzerland – potential lower subsidies from the state.
- UAE – potential implementation of a diagnostic-related group system.

Read: How taxpayers will cough up for the new NHI

Roll-out of day case clinics globally

Mediclinic is rolling out day clinics across all its geographies, with the aim of reducing the burden in acute hospitals by performing short-procedure or diagnostic treatments on a same-day basis.

"Technology allows more power acuity procedures to be carried out in day care settings," Van der Merwe explained. "Co-locating day care clinics at our busiest hospitals creates capacity for higher acuity in-patient activity in the hospital. These day care clinics have been operating in South Africa for quite some time now.

“In Switzerland, day care surgery didn’t exist until a year or so ago. In the Middle East, it accounts for around 10% of revenues.”

Typical procedures that can now be carried out at co-located day care clinics include:

- Carpal tunnel surgery
- Circumcisions
- Hernia operations
- Varicose vein surgery
- Insertion of a pacemaker
- Knee arthroscopy, and
- Heart catheter examinations.

Switzerland: A day case clinic manager has been appointed to drive the roll-out of further day case clinics in Switzerland. Plans are in place to establish an additional standalone day case clinic around the end of the current financial year and another two in the 2021 financial year.

Southern Africa: Five additional day case clinics are to be opened over the next two years at Mediclinic Winelands, Mediclinic Cape Gate, Mediclinic Pietermaritzburg, Mediclinic Bloemfontein and Mediclinic Panorama, which will add an additional 11 operating theatres and increase the total number of day case clinics in this region to 15.

Middle East: Mediclinic has acquired two clinics from Majid Al Futtaim in the city centres of Deira and Me’aisem, and has plans for further expansion in this region.

Swiss operations drive revenue

The international healthcare provider derived the lion’s share of its revenue (46%) from its operations in Switzerland.

Its Swiss hospital group, Hirslanden, seems to have finally adapted to the regulatory changes related to outpatient tariff reductions and outmigration of care. Mediclinic is currently investigating further expansion in Switzerland via a collaboration with Medbase, the largest primary healthcare specialist in the country.

Van der Merwe said he is satisfied with the performance at Hirslanden’s two established day case facilities in Bellaria and Zurich, as well as facilities at the train station at Lucerne.

Mediclinic also has two new joint ventures planned for its Switzerland division:

- A public-private partnership with the university hospital in Geneva for a day case clinic for outpatient surgery, and
- A joint venture with the Kantonsspital Baselland to establish a centre-of-excellence research and training facility for musculoskeletal patient care in the north-west region of the country.

National Health Insurance looms in South Africa

Although NHI has been touted in some circles as a threat to private healthcare providers, Van der Merwe said he does not see it as a threat currently. “There are different scenarios and the most important takeaway here is that we are working constructively with the health authorities to find solutions for the challenges that face our healthcare system,” he said.

Read: NHI roll-out cost increased by additional R33bn a year

Talking to the idea of new opportunities in South Africa, Van der Merwe noted that Mediclinic has strong competencies in radiology and pathology, since the group already runs those businesses in the Middle East and Switzerland.

“In SA, we have not historically been involved in those businesses for structural reasons. Should there be possibilities in those fields going forward, we will consider it,” he said.

Slutzkin said he believes the key risks in the South African hospital sector include government regulation, the slow approval of new beds, weak growth in low-cost networks, and nursing shortages.

Southern African revenue was up 7% for the period to R8.56 billion, accounting for 31% of total revenue. This division opened a new Mediclinic Stellenbosch day case clinic in June.

Read: Why George said no to Mediclinic

New hospital is the heart of Middle East revenue

The main contributor to revenue growth was Mediclinic Airport Road Hospital, where inpatient and outpatient volumes were up 15% and 10% respectively during the first half of the year.

The Middle East division accounted for 23% of total revenue, at Emirati dirham 1.6 billion. Plans are afoot to complete construction of a new comprehensive cancer centre by the middle of next year.