



MACQUARIE
ACN 002 574 923

Macquarie Private Wealth

Snapshot

Healthscope

Business Description

Healthscope Limited (HSP) operates hospitals, pathology laboratories, and collection centres for the public and private sector in Australia, New Zealand, and South East Asia, employing 18,000 people in the health sector. Healthscope's two main businesses are hospitals and pathology. Healthscope in 2009 owned and managed 44 hospitals around Australia, from which the majority of revenue is earned. These comprise three main divisions comprising Psychiatric, Rehabilitation and Extended Care, and Medical/Surgical. Pathology operates 44 laboratories and several hundred collection centres in Australia, Malaysia and Singapore. In August 2009, Healthscope Pathology opened Labtests, a pathology provider in New Zealand.

Strategy Analysis

HSP strategy is to micro manage its private hospitals to drive efficiency and improve returns on capital. The hospital portfolio built through acquisition is relatively immature and has excess capacity. HSP has been in the process of integrating acquisition and building occupancy levels of its less mature facilities. Building in-house diagnostic facilities provides hospitals with a quick and convenient response to service patients. The strategy is to offer its customers the quickest turnaround for blood testing. HSP is reinvesting capital into its facilities to make them hubs for healthcare services in their respective regions. These hubs aim to deliver a range of services to make them superior to any potential competitor. Healthscope reported NPAT up 145.3% to \$38.42 for the half-year ended 31 December 2008. This was impacted by a small number of NRI's, which cumulatively reduced the Group result by \$1.9m (net of tax). These items related to business restructure costs (\$1.3m), and failed acquisition costs (\$0.6m). Revenues from ordinary activities were \$827.20m, up 13.9% from the same period last year. Diluted EPS was 15.6 cents compared to 6.5 cents last year. Net operating cash flow was \$68.55m compared to \$61.16m last year. The interim dividend declared was 10.5 cents compared with 9.5 cents last year. The Company reported that focus will remain on gaining market share whilst maintaining margins, in both hospitals and pathology sectors.

08 September 2010

Recommendation

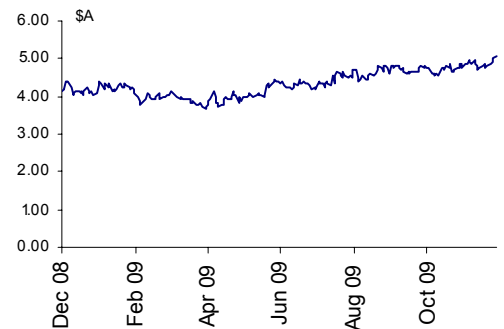
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Relative to: All Ind (ex Fins)

Investment Fundamentals

ASX code: HSP
Stock price: \$6.15
Market cap: \$1,952m

	Y/E 30/06/2010	2011e	2012e	2013e	2014e
Reported e	\$m	124.4	139.9	158.7	177.1
Adjusted e	\$m	124.4	139.9	158.7	177.1
EPS adjusted	¢	39.2	44.1	50.0	55.8
EPS growth	%	8.2	12.4	13.5	11.6
PE	x	15.7	14.0	12.3	11.0
PE relative	x	1.0	1.2	1.2	1.2
DPS	¢	26.7	28.7	30.7	32.9
Yield	%	4.3	4.7	5.0	5.4
Franking	%	100.0	100.0	100.0	100.0

Share Price



Source: ASX and Company accounts

Segment Performance

Results by Industry	Revenue (%)	Return on Sales (%)	Return on Assets (%)	Annual Shareholders' Return	
				1 year	3 year
Hospitals	77.2	8.0	11.1	34.0%	6.0%
Pathology	22.8	13.0	12.0	3.0%	33.0%
Total	100.0	21.0	23.1		
Results by Geography				Dividend Reinvestment Plan	
Australia	93.7	0.0	0.0	Shareholder	Yes
New Zealand	3.5	0.0	0.0	Discounts	No
South East Asia	2.8	0.0	0.0		
Total	100.0				

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Disclosure: In accordance with Section 849 of the Corporations Law, Macquarie Equities Limited states that Macquarie Group is acting for a consortium in respect of a proposal to acquire all of the issued capital of Healthscope Limited by scheme of arrangement as announced 14 May 2010.

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