Solid year-on-year results for Netcare despite Covid-19 impact

Netcare Limited's (Netcare) group revenue for FY 2021 increased by 11.5% to R21 005m (FY 2020: R18 843m) with group EBITDA for FY 2021 improved by 24.8% to R3 193m (FY 2020: R2 558m) and group EBITDA margin improving to 15.2% (FY 2020: 13.6%).

Source: © Netcare Netcare Netcare Jakaranda Hospital

Adjusted headline earnings per share (HEPS) increased by 107.4% to 67.4 cents (2020: 32.5 cents).

Netcare revenue, EBITDA and EBITDA margins have showed a steady sequential improvement over the second half of the financial year ended 30 September 2021 (FY 2021) when benchmarked against both the first half of FY 2021 and the second half of the financial year ended 30 September 2020 (FY 2020).

This has resulted in a solid improvement in the year-on-year financial results

While Netcare suspended the interim and final dividend payments for FY 2020 and the FY 2021 interim payment, the Board has resolved to pay a final dividend of 34.0 cents per share.

The worst health crisis

Commenting on the Covid-19 pandemic, Netcare Group CEO, Dr Richard Friedland, says it is the worst health crisis for almost a century. Its magnitude in terms of loss of life and its impact on the economy have been devastating.

“Since our first Covid-19 case on 9 March 2020, we have treated over 125,000 Covid-19 patients, of which 43% were admitted to our hospitals,” he says.

Impact on operations

The first wave of the Covid-19 pandemic, which peaked in July 2020, predominantly impacted Netcare’s operations for the second half of FY 2020.

The second wave of Covid-19, driven by the emergence of the Beta variant in late November 2020, peaked in January 2021 and negatively impacted Netcare’s operational and financial performance during H1 2021.

H2 2021 was affected by a third wave of Covid-19 following the emergence of the more contagious Delta variant in May 2021.

Each successive wave has proven to be more severe than the preceding wave, as evidenced by the number of Covid-19 admissions during H2 2021 exceeding those of H1 2021, which in turn exceeded those of H2 2020.

It is broadly estimated that the pandemic resulted in the loss of approximately R1.5bn in EBITDA (FY 2020: R2.3bn) to the Group. However, operating profit increased by 45.4% to R2 025m (FY 2020: R1,393m).

Covid related costs

In addition to absorbing lower activity levels throughout the pandemic, the group also incurred Covid-19 related costs of approximately R521m in FY 2021 (FY 2020: R300m).

Approximately 80% of these costs comprise personal protective equipment (PPE) required to keep staff, doctors and patients safe and prevent in-hospital infection.

These costs continued to weigh on margins, given the higher prices paid for PPE during the first wave in May 2020 due to a shortage of international supply and long lead times.

Profit after taxation increased by 188.8% to R904m (FY 2020: R313m).

Capex on critical strategic projects continued during the year, with total capex investments amounting to R1.1bn.

The group‘s cash resources and available undrawn committed facilities were unchanged at R5.6bn. Cash generated from operations showed strong growth of 154.3% to R3,794m (FY 2020: R1,492m). The cash conversion ratio improved further to 118.8% (FY 2020: 58.3%).

Netcare’s core focus on digital enablement and data analytics was a critical enabler during the pandemic and enhanced its ability to respond to the changing healthcare environment.

The benefits of Netcare’s digital systems were evident during this period as doctors could limit their physical presence in wards while still managing patients remotely, timeously and effectively.

Expanding the Netcare ecosystem

Construction of the new Netcare Alberton Hospital, which will replace the existing Netcare Union and Netcare Clinton hospitals, is progressing well with the opening of the 427 bed facility planned for April 2022.

In addition, the construction of the new 36-bed Akeso facility in Richards Bay has been completed and will open in early 2022.

Appointment of independent non-executive directors

Netcare has appointed of Dr Rozett Phillips and Dr Thabi Leoka as independent non-executive directors with effect from 1 January 2022.

Outlook

The outlook for FY 2022 largely depends on the evolution of the Covid-19 pandemic and the potential scenarios emanating from it.

The possibility of further waves of Covid-19 still exist. In the absence of new highly transmissible and virulent variants of the virus, Netcare expects a reduction in severity of such potential waves.

This is due to increasing levels of immunity from natural infection and vaccination, which will continue to influence its ability to operate in an unrestrained environment.

Friedland says that if South Africa is able to move from a pandemic to an endemic state in which outbreaks are not overly disruptive and largely controlled by significant and frequent vaccination, recovery in activity over time to pre Covid-19 levels will be possible.

EBITDA margins in the underlying operating divisions are expected to strengthen. However, the Group margin is expected to remain unchanged due to planned operating costs of R273m (FY 2021: R172m) associated with the implementation of the Group's strategy.

"We expect to spend R1.4bn on capex including the investment of R227m in strategic projects, R160m on Netcare Alberton Hospital and R80m in the new 72-bed Akeso facility in Gqeberha, which will be completed in FY 2023.

"The strength of our balance sheet and the underlying businesses, together with an enhanced pipeline of new initiatives, should allow the continuation of dividend payments and position Netcare to return to pre Covid-19 profitability and growth over the medium term," says Friedland.