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Life Healthcare's growth is short-term pain for shareholders

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Life Healthcare's R14bn acquisition of UK-based Alliance Medical Group boosted its revenue by 27% to R20.8bn.

But finance costs of R1.3bn dragged the group's after-tax profit down 43% to R1.1bn for the year to end-September, the private hospital operator reported on Tuesday morning.

Besides its acquisition of 94% of diagnostic firm Alliance Medical in November 2016, Life Healthcare invested R428m in raising its holding in India's Max Healthcare to 49.7%.

A rights issue to fund these acquisitions saw its shares in issue grow 17%, and this dilution contributed to headline earnings per share declining 57% to 77.4c.

Life Healthcare's southern African subsidiaries include Life Esidimeni, the private psychiatric hospital group from which more than 3,000 patients were transferred by the government to unlicensed operators, resulting in 140 deaths.

Revenue from its southern African operations grew 4.3% to R16bn despite paid patient days at its hospitals declining by 1.7%.

"Overall lower activity volumes have been due to limited or no growth in the private healthcare market, macroeconomic factors and intensified case management efforts by medical healthcare funders," acting CEO Pieter van der Westhuizen said in the results statement.

Its southern African hospitals added 133 beds, 22 renal dialysis stations and a new oncology centre during the 2017 financial year.

"The increase in beds in operation was primarily driven by the adding of 60 mental health beds at Life Carstenview in Gauteng. An additional oncology unit at Life Eugene Marais Hospital in Pretoria was completed and operationalised," Van der Westhuizen said.

Revenue from its Polish subsidiary Scanmed declined 7% to R1.1bn.

"Several turnaround activities are taking place in the business, including major cost savings, such as administrative headcount and third parties' cost reduction, integration and improvement in operational efficiency.

"Completion of the system integration with Life Healthcare processes is planned for mid-2018," the results statement said.

Its Indian joint venture, Max Healthcare, grew revenue by 8%.

"Max Healthcare was impacted by the demonetisation of the currency towards the end of 2016 and the introduction of a number of regulatory changes such as stent and knee implant price caps.

"To mitigate the regulatory impact, a number of cost-efficiency initiatives have been identified," Life Healthcare said.

The group declared a final dividend of 45c, which shareholders have the option of receiving as cash or in additional shares.