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HD Ramsay's French deal raises the bar

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Ahead of his proposed float next month, Healthscope boss Robert Cooke was put on notice yesterday that the Australian Competition & Consumer Commission will watch his every move closely.

While the ACCC was blocking the purchase of a small hospital in the inner city Melbourne suburb of Brunswick, Chris Rex at Ramsay Health Care was signing a $627 million deal to extend his market leadership in France to 14.7 per cent of that market.

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France will now account for 40 per cent of Ramsay's revenues and 35 per cent of earnings, against 52 per cent and 57 per cent respectively in Australia.

Cooke will be more interested in brownfield Australian expansion for the moment, but Rex is showing his rival and indeed much of the inward-looking Australian business community just where its focus should be. The market liked the French deal, with Ramsay's stock price closing up 3.7 per cent at $46.80 in a falling market, and its fancy multiples underline why Healthscope's owners Carlyle and TPG want to float the business.

Ramsay is selling at a 2015 price-earnings multiple of around 24 times based against a market multiple of around 14 Continued on Page 28 Continued from Page 19 times, and on roughly 12 times enterprise value.

If Cooke had any doubt about his brownfield Australian expansion strategy, yesterday's ACCC decision rammed the reality home.

The decision was not unexpected but in the scheme of things still surprising, given the nature of the hospital market in which roughly a third of the market is private and of that Ramsay has around 27 per cent and Healthscope around 17 per cent.

The revenue is paid nationally from the private health funds and, in the case of Brunswick, Melbourne City is a short walk away.

Cooke has bigger things on his agenda right now with his private equity backers almost certain to float the company.

The float team is on a final offshore roadshow with the decision due by month's end.

The roadshow is selling to the big pension funds in the hope they will make sizeable bets on the company. If as expected the float option is chosen, the property will be included in the deal which will put the enterprise value at about $3.5 billion.

TPG and Carlyle were looking at spinning off the property but it is now considered better to include the total package to try to match the multiples at which market leader Ramsay is selling.

The float is timed for the middle of July.

The regulator knocked back the acquisition of Brunswick Private from Healthe Care on the grounds it would give Cooke a stranglehold on the North Melbourne rehabilitation market.

The deal was part of an asset swap with Healthe Care, with Healthscope selling its Gosford NSW facility to Healthe in return for the Brunswick hospital.

What worried the ACCC was Healthscope already ran two of the three rehab facilities in Melbourne's northern suburbs and this deal would have given it three out of three.

Some might wonder just how the definitions work because Gosford is now equally dominated by Healthe Care.

But the ACCC is defining the market narrowly, looking at just rehab services. Healthscope is now likely to get cash for the Gosford Hospital but that is subject to talks with Healthe Care.

Dark pools of trade WHEN Tony Abbott rang the opening bell at the NYSE this week, little was said about the fact the exchange now only represents about 20 per cent of US equities trades today.

The prestige and television cameras are still there but the real action is elsewhere.

With 13 different exchanges and much of daily volume going through the dark pools run by the likes of Credit Suisse, Barclays and UBS, the market has fragmented, as the ASX's Elmer Funke Kupper will tell you if you have a couple of hours.

In recent days, US Securities & Exchange Commission chairwoman Mary Jo White has started singing from Funke Kupper's hymn book.

Yesterday she warned the amount of trading in dark pools and other off exchange venues "risks seriously undermining" the quality of US markets.

As an aside, while the big European houses run the biggest US dark pools, the ASX actually runs the biggest in the local market.

Last week White said the SEC would look at forcing high frequency traders to register as broker dealers, among other restrictions aimed at improving the transparency of the market.

The Australian regulatory landscape is vastly different with wide "tick" sizes detailing minimum trading rules, no maker-taker pricing and best execution pricing as a broker only obligation, not an exchange requirement as in the US.

Chi-X accounts for about 15 per cent of the Australian market and as much as Funke Kupper complains he knows as well as anyone it is much better to be the dominant player in a two **firm** market than the monopoly.

What pleases him most about the SEC's swing towards his views on market regulation is by backing away from the free-for-all in the US it makes it less likely Australian regulators will be tempted to open local regulations any further.

As things stand today, ASIC and Treasury rules make the local market look transparent and orderly compared to the mayhem in the US.

Treasury rebounds THE report here yesterday noting the much talked about Treasury**Wine** profit downgrade was not coming quite as soon as expected if at all saw the **company**'s stock price bounce 4.6 per cent to $5.04 a share.

Put another way, if raiders KKR want due diligence their offer price will have to be closer to yesterday's close than the $4.70 a share first put to the **company** on April 16.

In mid-May KKR talked to a couple of shareholders who, not surprisingly, supported some sort of deal, but since May 20 when Treasury unveiled the offer there has been virtually zero contact between the two sides.

Treasury forecast earnings of between $190 **million** and $210m this year, down from $216m it reported last year and this month, at least, that is the story it is sticking with.

NewSat changes hands SINGAPORE-based **Ching** Chiat Kwong has taken effective control of struggling communications **firm** NewSat after converting some $US30m of debt into **equity** at 34c a share and increasing his **stake** in the **company** from 10 per cent to 26 per cent.

To help offset some short-term liquidity problems at Adrian Ballintine's shop, the same investor has fronted up with a $10m short-term loan.

NewSat re-emerged recapitalised at 40c a share in February last year. But this February it confided it lost $1.3m on $16.6m in revenues in the first half this year.

Since then Ballintine has hired an unnamed corporate governance guru to help put the vehicle into order, and added "market conditions have not improved to the levels initially anticipated." That means the **company** is going backwards with a few lost contracts from its teleport **business**, and as it awaits the construction of its satellite has been hit with delays on the next MEASAT satellite launch.The stock hit a high of 57c last year but has fallen rapidly this month to close at 30c yesterday.

CO hesco : Healthscope Ltd | ramhop : Ramsay Health Care Ltd | auccc : Australian Competition and Consumer Commission

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