THE AUSTRALIAN

SE Business

HD **Twiggy's united agrarian front to feed China**

WC 916 words

PD 24 July 2014

SN The Australian

SC AUSTLN

ED Australian

PG 28

LA English

LP

krygsman's view Healthscope CEO Robert Cooke Continued from Page 19 Fonterra Australia boss Judith Swales the latest in an interview with The Australian yesterday.

The New Zealand giant's financial year closes on July 31 and Swales, while not commenting on financial performance, acknowledged she has work to do to lift Australian returns to more acceptable levels.

TD

The slump in global powder prices comes at a bad time for both Murray Goulburn and Fonterra as they attempt to talk up local production which, at about 9.2 **billion** litres, is well down on records set in 2001 of closer to 11.2 **billion** litres.

The slump in prices is estimated to hit farm gate prices but not to the extent of the 40 per cent global slump that was due to increased supply from New Zealand, Europe and the US and stockpiling in **China**.

Farm gate prices hit a record $6.90 per kilogram of **milk** solid, or about 53c a litre, but are tipped to fall 70c this year if the global prices continue dropping.

The global fall also comes as Murray-Goulburn chief Gary Helou prepares to do a roadshow in September to spruik his financial capital raising plans.

Falling farm gate prices will not boost sentiment ahead of those talks. For Swales it's a matter of boosting production through more innovative products and leveraging the fact that five of the top seven **dairy** brands in Australia are Fonterra brands.

She ruled out any imminent move on Bega, saying she was happy with the 10 per cent **stake** and the commercial relationship with the **company**.

Retirement challenge FINANCE Minister Mathias Cormann's plans to reform retirement policy have done wonders for Challenger's stock price, which yesterday topped $8 a share for the first time before closing up 2.1 per cent at a record high of $7.98 a share.

Bell Potter is tipping a $9.30-a-share price for the stock, which has risen some 28.7 per cent this calendar year, after posting a total return of 80 per cent last financial year, bringing in market capitalisation at $4.2 **billion**.

The move is due — depending on to whom you talk — to chief executive Brian Benari's brilliance or word that Canberra has finally woken to the need to reform the pension phase of the national retirement policy.

Pricing Healthscope BOOKBUILD brokers Macquarie Bank will today settle a price around $2.15 a share for Healthscope, or some 22 times earnings, at just a 10 per cent discount to the almighty Ramsay Healthcare.

The final price and amount of stock held by the vendors Carlyle and TPG is still an open question but against a midpoint of $2.03 a share the tip is for something between $2.05 and $2.20 a share.

The **company** is forecasting a 9.3 per cent increase in earnings before interest, tax, depreciation and amortisation of up to $387.3 **million** this year on a 5.8 per cent increase in revenues to $2.4bn.

This will convert a $145m loss for the year just past to a $147.2m profit. Chief executive Robert Cooke will ensure these numbers are met, but any excitement will have to wait until year two.

Against a market multiple of around 15 times, the stock is expensive on any measure, but Cooke is a highly regarded hospital manager and on his fourth private-**equity** healthcare roundabout, so he knows the game as well as he knows good oysters when he sees them.

It is timed superbly as the overall market is perceived to be close to a near-term high. At $2.15 a share it will be trading at 22 times earnings, which is a 10 per cent discount to Ramsay. That is about right but, while few doubt it, Healthscope will get its earnings numbers in the first year but it won't set the world on fire.

So why only a 10 per cent discount? The answer is in part because Ramsay has been through its local expansion phase and Cooke has that before him. His relationship with health insurers and other providers is still being refined and in, other words, it is a work in progress.

The local pathology unit is a dog while the offshore **business** in New Zealand, Singapore and Malaysia has real growth potential against some concerns the Ramsay French purchases were cheap for a reason, which doesn't leave much room for upside. The sector can only get better when you consider private hospitals account for 33 per cent of hospital beds in Australia, 41 per cent of hospital visits and 67 per cent of elective surgery.

If you back Healthscope management, then arguably it is because of the local growth option, which is something Ramsay's Chris Rex will dispute, with some validity.

Cooke has cleverly chased blue sky offshore with the usual mixed local reaction and has two hospital giants in Perth and Hollywood, which arguably indicates he is nearing a local peak.

The float was cleverly managed to limit supply at the discretion of the managers with Carlyle and TPG able to scale back from 40 per cent to 25 per cent and the so-called cornerstone $1.7bn allocation also movable.From today, the rationale for the valuation will need to be shown and both Cooke and Rex are ready for the battle.

CO hesco : Healthscope Ltd | mryglb : Murray Goulburn Co-operative Company Limited

IN i41 : Food/Beverages/Tobacco | i413 : Dairy Products | i951 : Health Care/Life Sciences | i95107 : Hospital Care | icnp : Consumer Goods | ifood : Food Products | iphhp : Healthcare Provision

NS cslmc : Senior Level Management | niex : Interviews with Corporate Executives | c41 : Management Issues | ccat : Corporate/Industrial News | ncat : Content Types | nfact : Factiva Filters | nfcpex : FC&E Executive News Filter | nfcpin : FC&E Industry News Filter | nitv : Interviews

RE austr : Australia | china : China | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia

PUB News Ltd.

AN Document AUSTLN0020140723ea7o00014

