

Parkway's launch of Novena hospital could widen refinancing options, lift dividends

By Adeline Cheong

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Dr Micheal Wong, medical director at Singapore Urology and Fertility Centre, Mount Elizabeth Medical Centre, was among the first to book a suite at Parkway Holdings' upcoming hospital at Novena. "Parkway Novena will be the future of private hospitals in Singapore as resources allocated to this hospital will be significant and it is backed by Parkway. The rates are also competitive with those of Mount Elizabeth Hospital," Wong says.

The willingness of doctors like Wong to book a suite at Parkway Novena long before the opening in 2012 is helping to ease market concerns over the project's viability and to dissipate risks surrounding the project, says JPMorgan.

Share of Parkway hit a 52-week high of \$3.47 on March 26 ahead of news that all 100 units of the first phase of Novena Medical Suites were sold out at \$3,588 to \$3,828 psf, exceeding market expectations of \$3,500 psf. And as more sales are recognised, analysts say the stock could rise more than 10%.

Lim & Tan Securities says in a report dated March 29 that it remains bullish on Parkway, noting that "the strong response [for its suites] has vindicated Parkway's aggressive bidding for the Novena site in February 2008 that sent its share price 15% lower to \$2.48". Parkway's bid of \$1.25 billion for the site, a short drive from Orchard Road, was more than twice the second-highest bid.

The sale of the 100 units, which measure 452 to 1,431 sq ft, is expected to bring in more than \$200 million in revenues in progressive payments, of which 5% is paid up-front as a booking fee. JPMorgan says stronger demand and pricing for the medical suites mean more refinancing options for the \$500 million loan due in July 2011. Parkway has another \$560 million loan due in July 2013. "A lowering of the cost of capital for the project and the group could result in an accelerated return to restoring Parkway Holdings' historically higher dividend payouts [of 89.3% from FY2003 to FY2007]," says JPMorgan.

Revenue is expected to receive another boost from the launch of Phase 2. CEO designate Dr Tan See Leng says, "Demand is there. Why hold it off? For Phase 1 units, we work with a lot of doctors for the particular speciality mix, [including] neurology, heart and vascular medicine and orthopaedics, that we feel will generate hospital revenue over a sustainable long-term basis. Many are doctors who currently rent or lease space [outside] our three hospitals [at Mount Elizabeth, Gleneagles and Parkway East. They come from places like] Lucky Plaza, Camden or Paragon... For Phase 2, we are targeting a more open market. [They will still be] for specialists, some of whom will support the original Phase 1 specialities."

Deutsche Bank expects Parkway to sell the remaining 159 suites at a higher price of \$3,900 psf in FY2011 and \$4,100 psf in FY2012 versus the average price of \$3,708 psf in Phase 1.

Dr Tan says the 333-bed patient-centric hospital will be the first private hospital to offer only single beds. "We find that, in our existing stable of hospitals, single beds are always full," he says.

Parkway also plans to work with its new shareholder India-based Fortis Healthcare, which runs 62 hospitals, to train nurses for its Novena hospital. "We hope to [tap] their resources in allied healthcare and nursing. We can look at better understanding their training colleges, how to shorten their learning curve. For example, to have an orientation there before they come here," says Tan.

As one of the largest private healthcare groups in Asia, Parkway has been able to ride the regional recovery. For 4Q2009, revenues rose 7% to \$250 million and earnings stood at \$24.8 million, versus losses of \$21 million previously.

In the same period, local hospitals saw an increase in inpatient admissions and day cases of 0.7% and 5% respectively, and admissions in international hospitals were also higher. The fixed-price packages launched last April to make its services more affordable during the downturn were also well received, with more than 4,000 packages sold as at Dec 31, 2009.

Apart from the upcoming Novena hospital, Parkway also plans to add a five-storey annexe with 105 beds to the 118-bed Parkway East Hospital to cope with rising demand. As such, Kim Eng projects bed capacity for Parkway's Singapore hospital operations to grow 62% in three to five years.



For FY2010, Kim Eng is projecting a 13% increase in revenue to \$1.1 billion and an 81.9% rise in earnings to \$227 million. It has a “buy” rating on the stock and a price target of \$4.06 to factor in higher average selling price assumptions of \$4,500 psf for subsequent launches of medical suites.

JPMorgan has a “neutral” call, valuing the stock at \$3. The brokerage notes that the share price continues to trade below Fortis Healthcare’s entry price \$3.55, reflecting the fact that no general offer has been triggered yet and that there have been few clear-cut operational synergies enunciated by various parties.