Philo Capital Advisers

FINANCIAL REVIEW

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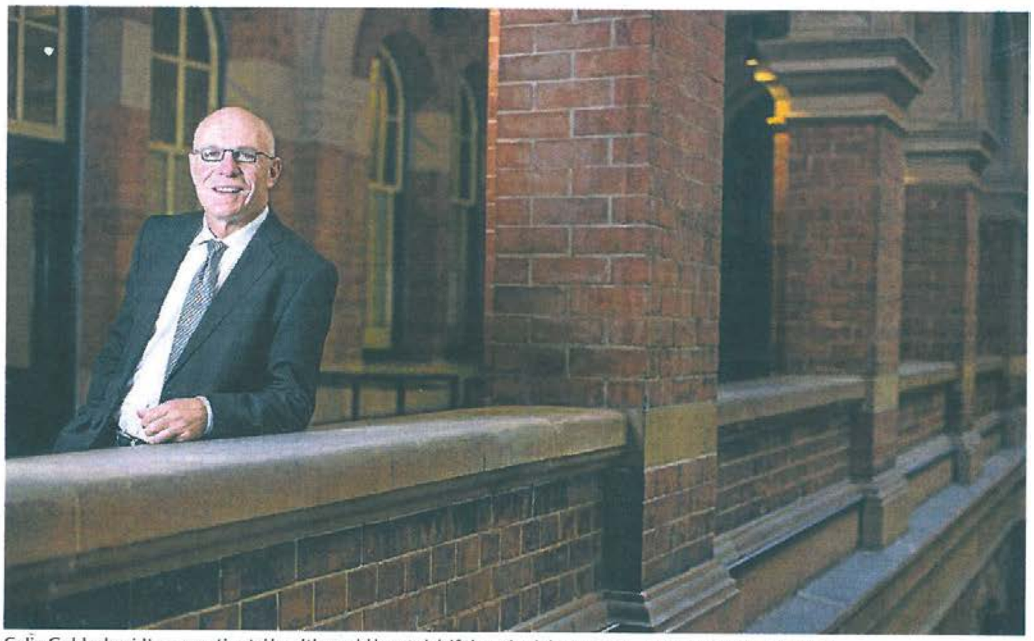

Colin Goldschmidt says patients' health could be at risk if they don't have tests. PHOTO: ANGUS MORDANT

$7 co-pay may hurt growth

Jessica Gardner

The effect of the proposed $7 co-payment for medical care is already being felt, with **Sonic Healthcare** chief executive **Colin Goldschmidt** linking weak activity in the company's local pathology division to patients putting off tests.

Dr Goldschmidt said he did not have hard evidence but media coverage of the budget proposal was "possibly" discouraging completion of pathology referrals. He said doctor visits at Sonic's bulk-billed clinics had also been weak.

"Many people think the co-payment went into effect on 1 July this year," he said. "If the co-payment legislation goes through as proposed it will have far-reaching effects for general practice, pathology and radiology."

Dr Goldschmidt said patients' health could be at risk.

"My view is that if patients have a pathology referral it means they need to have the test done," he said. **Primary Health Care** CEO Edmund Bateman has also said pathology is most vulnerable to the $7 charge.

The softness in Australian pathology volumes, along with higher costs due to a costly collection centre roll-out, caused Sonic to be "prudent" in its guidance of 5 per cent growth in group earnings before interest, tax, depreciation and amortisation in 2014-15. "Our guidance for FY15 might have been a little higher had we not been a bit conservative on Australian pathology," he said.

Sonic Healthcare

Full year	2014	2013
Sales ($m)	3913	3484
Pretax ($m)	572.4	505.8
Net ($m)	385	335
EPS	96.2¢	84.8¢
Final div*	40¢	37¢
-Payable		Sept 23
	Close	Change
Shares (last)	$17.62	-19¢

Citi analyst Alex Smith said consensus was for EBITDA growth of 9 per cent. The measured outlook and a miss of consensus on full-year net profit rattled investors.

Shares in the $7 billion company fell 1.1 per cent to $17.59, down from a 12-month high of $18.28 reached in May.

The stock has climbed 21 per cent in the past year, outperforming the S&P/ASX 200 Index, which has gained 10 per cent in the same period.

But Philo Capital fund manager Hugh Dive said there was little incentive for Sonic to put out stretch targets, and a 5 per cent EBITDA rise could still beat slowing growth outside the resources industry. "Sonic is one of the best performing stocks in my portfolio," he said. "It was a pretty solid result."

The Sydney-based company said its net profit after tax rose 14.9 per cent to $385 million in the year ended June 30, missing consensus of $392.3 million.

EBITDA rose 5.4 per cent to $681.5 million, which met guidance of 5 per cent growth. Revenue rose 12.3 per cent, also in line with consensus.

Foreign exchange tailwinds meant the growth rates in constant currency were more subdued. Revenue rose 4.8 per cent, while NPAT rose 6.5 per cent.

Australian pathology, which accounts for 29 per cent of revenue, had sales growth of 6 per cent.

Australian imaging and medical centres both had revenue growth of 5 per cent to $415 million and $349 million respectively.

On a geographic split Sonic now has more than half (51 per cent) of its revenue coming from offshore.

UBS analyst Andrew Goodsall said the result benefited from a "solid portfolio effect".

US pathology, which accounts for 21 per cent of revenue, had volume growth of 2.2 per cent, but revenue was flat. Extreme weather hurt volumes midway through the year.