Burjeel Holdings Full Year 2022 Earnings Call Transcript

Chetan Sehgal – Director – Strategy & Investments
Ladies and gentlemen -- my name is Chetan Sehgal and I am the Director of Strategy and Investments and Interim Head of IR at Burjeel Holdings.

It's a pleasure to welcome you today to Burjeel Holdings' Full Year 2022 earnings call, which will cover the twelve-month period ending 31 December 2022. This is our second reporting event as a listed company since our IPO in October 2022, and our first results call.

Before covering our results, I'd like to cover some housekeeping. I need to remind you of our disclaimer on slide 2, which we encourage you to read. It contains important information, and we advise caution on the interpretation and limits of historical data and forward-looking statements. For reference, the presentation slides will be made available on our Investor Relations website.

On today's call I am joined by Burjeel Holdings' CEO, John Sunil, and Deputy CFO, Muhammed Shihabuddin.

Following the presentation part of this call we will open for Q-and-A, so please note down any questions and we can go over those at the end of the call. With that said, I will hand over to our CEO, John Sunil, to talk you through the key highlights of 2022.

John Sunil – Burjeel Holdings CEO
Thank you, Chetan and welcome everybody to today's call. Before we dive into our strategy and results, I want to provide a brief overview of our business. Burjeel Holdings is a leading healthcare services provider in the UAE and MENA, operating 61 assets, including 16 hospitals and 23 medical centers, a network of pharmacies and other services including centralized diagnostics, in the UAE and Oman. We'll shortly commence operations in KSA.

Our business was founded on the back of a desire to ensure quality healthcare was accessible to all demographics across the UAE.

We provide that today through a strategically structured and located suite of brands -- each targeting specific socio-demographics and providing the relevant services to each, in their communities.

Moving to the key highlights. In May 2022 we launched Burjeel Holdings as part of the preparation for our IPO on ADX in October -- a milestone that saw us significantly deleverage and position the business for future growth.

Our Net profit improvement of 52 percent in 2022 is most pleasing, given it significantly outpaced revenue growth…. which is evidence of our ability to deliver on our strategy of elevating yield and utilization within our existing asset base.

Burjeel Medical City, or BMC, continued to be a growth engine for us, with revenue more than doubling at BMC and EBITDA turning positive during the year.

The medical milestones achieved at BMC and other hospitals helped elevate the reputation of the broader Group, which in turn helped us to increase overall footfall by 15 percent during the period.

We hired extensively in 2022 -- adding 1,400 employees -- which positions us strongly for future growth in the year.

Focusing on strategy, we couldn't have delivered those highlights without having a clear strategy guiding our decisions.

As highlighted during our IPO, we are focused on four growth levers: The four growth levers that we are taking about, **the first one** I'll just highlight.

The majority of our assets, including our flagship asset Burjeel Medical City, are in the growth phase, with significant scope to ramp up. This is a core focus for us. Enabling continued top-line growth by increasing utilization across the network, without the requirement for major capital expenditure. Average network utilization is currently at 56 percent.

Secondly, we are focused on the delivery of highly specialized and complex patient care, which generates higher revenue per procedure and increases patient yield. We're expanding capability and service mix with a focus on high value treatments.

Third, our group structure enables us to create significant value through operational excellence, including the centralization of back-office and certain medical functions, like our expanding centralized laboratory. We're also streamlining our operations and improving the customer journey by investing in digital capabilities.

Finally, we're exploring expansion where it makes sense, particularly into Saudi Arabia, a market which we believe has tremendous long-term potential. Our focus is on CapEx-light opportunities, whether that be through partnerships, JVs or O&M contracts.

During the year we made strong progress with the execution of our strategy and achieved several operational milestones.

Amongst our many milestones, we successfully performed a highly complicated pediatric bone marrow transplant and Burjeel Medical City performed its first kidney transplant. We cemented our position as the UAE's hub for complex medical procedures.

We also formed partnerships with France's IFEM Endo, the Paley Institute and others, bringing world-class experience to this market which drives results on the ground and elevates our attractiveness to medical tourists from abroad.

Post period, we announced our entry into Saudi Arabia through a partnership with Leejam. Together we're launching our sports medicine and rehabilitation offering in a CapEx light manner, across Leejam's existing fitness center network.

Operationally an incredibly pleasing year for us, which is reflected in the numbers Shihab, our Deputy CFO, will now take you through. Over to you Shihab.

Muhammed Shihabuddin – Deputy CFO
Thank you, John. I would like to highlight about the financial performance of the group. The group has achieved a 3.9 billion dirham revenue in 2002, which is 17 percent growth compared to FY 2021 and largely driven by the hospital segment which has improved over the last year.

The hospital segment contributed 88.4 percent of overall revenue.

When it comes to the medical centers, it has also maintained the contributions and even improved. So this shows that basically the Burjeel Holding its footprint across the community are strengthened. And we ensured this growth mainly contributed by our growth assets by way of the volume growth as well the elevated ARR of the patients. This is how we achieved the revenue.

When it comes to EBITDA, the group added 878 million EBITDA in 2022, which is grown at 12.7 percent compared to the last financial year. So the major contribution to EBITDA margin, basically, which we saw slight decrease there, which is mainly to managing the complex care as John mentioned, basically, so Burjeel Medical City is a high complex care hospital implementing the most complex care procedures, the investment is more into the doctors and medical teams to take care of the future growth which is where the manpower cost increased is going to be contributed in the coming months, it will be compensated and it will improve further on our EBITDA margin.

When it comes to the Net Profit, the group had achieved record growth on 51.5 percentage in growth compared to the last year. The group has achieved around AED 355 million net profit.

When it comes to the major element of the cost, basically it is clearly visible that how we manage that cost. So we demonstrated how the group is functioning, the backend functions have got centralized, and that is how we improved our efficiency year on year.

When it comes to the inventory consumption, and you can see that it is well maintained even as we improved our case mix model to complex care but still the direct cost element is maintained, which we brought by way of the renegotiation of the vendors and we achieved the more benefit over there

When it comes to the ECL provisions, this is expected current loss provisions which is independently done by the external auditor. So we actually just got improved because of our RCM or Revenue Cycle Management. The function is brought the efficiency to the system. They involved in the claim process from the time of registration till the resubmission of the claim. They implemented process protocols to manage the quality of the claim and improve the quality of the claim and the better position. That is how the rejections are reduced a lot.

So we maintain our efficiency through these backend functions and are going to be improved in the coming days period.

When it comes to the working capital position, the group has improved its position as regards the trade receivables, we maintain that payable days.

When it comes to the inventory, the group has achieved efficiency over there as well. As I mentioned, when the group is moving towards the complex care, which has the critical elements of the super specialty even though the overall inventory levels are maintained.

When it comes to the trade payables, it is reduced substantially and we are aiming to reduce this further to the level of 150 days in the coming six months. That is our goal, and we hope to achieve that.

When it comes to the capital structure, as all of you know, basically like we just demonstrated, what are the positions pre-IPO as well as post, so I would like to highlight that the majority of IPO proceeds were injected back into the company and were utilized to pay off the debt. By doing that, we brought down our net debt from 3.165 billion to 1.1 billion.

When it comes to the net debt to EBITDA, we are at 1.5 times and we strongly believe that we've got a good position on leverage. Going forward, we will be maintaining a good leverage position, as indicated in the management target.

When it comes to the segments. For the hospital segment, as I mentioned, it is contributing 88 percent of Group revenue. And you can see that the hospitals segment has grown at 21.3 percent, the major growth is contributed by our growth assets and especially Burjeel Medical City, which is our new 400 bed oncology, super specialty hospital, which has contributed quite substantially to the group.

When it comes to the EBITDA percentage, the group has maintained margin in the hospital segment. But as I mentioned, the small dip is because of mainly the super specialty doctors and the team introduced into the system to take of the future growth as a strategy of the group to improve and increase on the super specialty segment. So that is the predefined priority, so when the growth happens the improvement to the bottom line will have a margin impact.

When it comes to the volumes, it is clearly visible that how Burjeel Holdings are maintaining and improving its position into the market share. So the flow of outpatient volume has increased at 15 percent and inpatient footfall has increased 17 percent.

So it is clearly visible how Burjeel Holding is transforming towards complex care. So we are aiming for the conversion improvement, which is clearly reflected here, with improvement in IP (inpatient) footfall.

When it comes to Burjeel Medical City as I mentioned, this is the 400 bed oncology and other super specialty hospital. It has been fully functional since 2021 and you can see the growth the particular hospital has achieved.

Currently we are at outpatient utilization of 28.8 percentage and inpatient at 34 percent, but you can see the growth in the particular hospital has improved and revenue has grown at 125 percent and EBITDA has gone from minus 5 to 55 million in the first full year of operations. This is how that super specialty segment is contributing to the group and improving as a hospital.

And to come to the medical center, it is contributing 10 percentage of the total group revenue, is maintained revenue growth at 9.6 percentage. And we realize that the importance of these medical centers in their respective communities and ensuring that a level of service is at their doorsteps, considering our valuable customers come from the primary care and as a system, ensuring the services to our customer from primary care to tertiary care. So, the medical centers are key to the group network.

I would like to hand over to Chetan, briefing about the stability and growth of the group going forward.

Chetan Sehgal – Director – Strategy & Investments
Thank you Shihab. Putting into summary, Burjeel Holdings is a 15 year young group which has grown from a single hospital starting in Abu Dhabi to a fully integrated platform, which has successfully entered all emirates in the UAE and introduced operations in Oman, and has set up a market leading practice and position in these key markets.

The Group has identified strategic growth drivers to achieve its vision, including new markets, services, and a digital platform that enables a new level of scalability; which I'd like to reiterate and very briefly touch on this slide again.

As you see, the two circles on the left, which is ramping up our assets and increasing patient yield; they both go hand-in-hand, as we look to ramp up specifically in areas of high value, high return medical care, predominantly supported by the ramp up of Burjeel Medical City which both Shihab and John mentioned during their slides.

From an operational excellence point of view, we are delivering increasing value from the center - through centralized pooling of resource and infrastructure, where it makes sense, as well as technology investment and support services. There is still a lot of headroom to deliver efficiencies through centralization of services which we'll continue to focus on in the coming years.

I will elaborate on the last geographic expansion in the coming slides.

Just coming back in terms of the -- focusing on the first pillar in respect of utilization, there are a couple of key statistics that we'd like to cover on these slides.

In the top left pie chart, you can see the significant majority of our hospitals are in what we consider a high growth or medium growth phase, based on their average bed occupancy.

As you can notice, high growth assets have average bed utilization of 40 percentage versus medium growth assets with an average utilization of 60 percentage compared to some of our mature assets operating at a 79 percent utilization.

On the right, you can see, that while we continued to improve utilization across the network over the past three years, we ended FY 2022 with an average inpatient utilization level of 56 percentage.

On average, 44 percentage of our beds are unutilized -- something we see as significant opportunity for further growth at no additional capital cost.

As we mentioned, our aim is to grow utilization while increasing the average revenue-per-patient, on top of the obvious margin benefit of better utilizing assets that have already been funded.

Coming into the last vertical in terms of the regional expansion, as was mentioned during the IPO discussions, we remain focused on regional expansion opportunities, specifically where we can enter markets with a low-CapEx approach, bringing our expertise in to operate existing assets or deliver specific services in existing facilities. Our recent announcement with collaboration with Leejam is an example of the kind of collaboration and models we're looking for in new geographic expansion.

We continue to work on similar, other partnership models in the market like Saudi Arabia, which we potentially accelerate in the coming months.

We also see opportunities in areas of primary and tertiary care and are exploring opportunities across the region, with KSA and Egypt being potential markets where we think we could add significant value.

Pleasingly, governments and private sector entities we’ve been talking to are aware of the reputation we’ve built and our ability to deliver specialized services in the UAE, which is leading us to develop an encouraging pipeline of growth opportunities.

Before I move on to Outlook, to summarize, 2022 was a milestone year for our organization.

We delivered on the strategic priorities we stated at the time of our IPO with significant headroom left to grow.

Outlook

Looking ahead, we have provided guidance on this slide for the near term. We expect group revenues to continue to grow in the high teens with Burjeel Medical City outpacing group growth as it ramps up utilization and offers an increasingly broad service mix. This impact will flow through to EBITDA and EBITDA margin improvement, which we expect to improve to at least 2021 levels.

From a CapEx perspective, we continue to assess potential growth opportunities with a focus on CapEx-lite expansion, as stated during our IPO. We haven't built any inorganic growth estimates in the guidance set out above.

In terms of debt levels, we’re comfortable with our current net debt position and are open to investing in opportunities that align with our strategy and would deliver very clear financial returns to the business. We remain committed to maintain a healthy leverage ratio, as communicated during IPO roadshows, with Net Debt / EBITDA not to exceed 2.5x.

Finally, from a dividend perspective, we intend to pay our first dividend in 2023, based on net income for 2023. We will elaborate on this as part of our AGM.

That concludes the presentation part of this webcast. John, Shihab, and I are happy to take any questions. I'll now pass the call back to the operator.

----------Q+A------------

Is there any dividend for 2022?
Just to cover back on that, I think in line with the guidance that we have said for as part of the IPO, we had committed that we would start paying dividends from 2023 onwards. So, we are sticking to the same line of commitment from an outlook perspective. So, the first dividend will be paid based upon 2023 net profit numbers, as has been set out in the guidance.

When do you expect BMC to reach mature levels? At that time, what is the expected EBITDA margin?

John Sunil:
BMC is currently in a growth phase, and as we said, we are ramping up and most of our assets at present is focused on complex procedures as we were talking about. We are looking into 2024, 2025 to ramp up to margin levels that we'd be happy for at least a few years down the line. The EBITDA margins that we are looking into is between 26 to 28 percent for BMC and we are pretty confident, based on the inpatient ARRs and the complex procedures that we are looking at we'll be able to achieve this.

Can you provide some color on expected growth CapEx this year, excluding any M&A?

So from a growth CapEx perspective, there's no immediate growth CapEx that's been planned into the system for organic growth, as we mentioned during the IPO exercise. We have a fully invested CapEx base, which we are sitting on and the focus is on utilizing it. Any growth CapEx would mostly be for the fourth pillar in terms of geographic expansions for which, as we mentioned, we are exploring different opportunities both organic and inorganic, and we'll share the details as we go along. We believe from the balance sheet position we are sitting on, we have headroom to capture these opportunities and scale up, but relevant details will be shared as these opportunities start to mature.

Where you mentioned in terms of there's a decent private healthcare capacity in Saudi currently. How do we intend to offer the differentiated services in that market?
So look, I think our view is even if you look at the overall spread of the market, 75 percent of the healthcare spend in Saudi still sits in the public sector. Only 25 percent sits in the private sector. And that's part of the transformation that the country has been going through. There's a huge strategic shift in terms of moving towards more equitable, private-public spending, which we have seen in the UAE market. Having said that, we fully appreciate that Saudi already has a lot of operating brands in the healthcare space, which are very well developed. But where we exactly see the opportunity is around the strategy that we mentioned on the strategy slide, focusing on two aspects. One is the primary care model, two digital initiatives as well as the tertiary care. The majority of the healthcare operators are focused on the secondary care segment, which we are not focused on expanding. A majority of the tertiary care services sit within the public sector hospitals, where we are having discussions and collaborating with the public sector hospitals for some of these growth opportunities. So we will continue to explore, as we mentioned on the CapEx slide models, differentiated kinds of services in terms of taking patient services out of the hospital from the primary care perspective or collaborating with the tertiary care sector on a CapEx lite model and a collaboration service based model to expand into. And we believe there's enough in that part of market segment which will continue to grow very strongly in the coming years.

Elaborate on the JV with Leejam, what is a capital commitment? What is the time period? So Leejam, as some of you might be aware, is one of the leading health center and gym clubs operator in the kingdom of Saudi Arabia. They have around 150 outlets and are committed to grow it exponentially in the coming years. What we have agreed with them is starting with Riyadh we'll introduce these services as part of a first rollout of six clubs - three male and three female. We are currently in the process of obtaining licenses. As soon as the licenses are obtained, we've already identified the size and design etc., so recontributions of the sites is a two month exercise. From a CapEx perspective, it's a very CapEx light investment because each of the sites will require a half a million to 1 million investment in terms of redesigning the sites and equipping them. And this could be ready in two to three months once the license to operate and the renovation work starts. So we are hopeful that depending on the timing of the license, in the next three to six months, the first batch of six clubs in Riyadh should open up and then it would exponentially grow from there in a very fast pace.

In terms of the service mix, it's going to be a combination of physiotherapy and the gym services and a number of the services, including hydrotherapy, vitamin infusions, oxygen etc. It's a very unique model which is more focused on wellness as well as fitness.

Will Burjeel management continue to increase investor engagement, including attending upcoming investor conferences?
Do we expect sellside coverage of the stock?
Absolutely. So we are fully committed to maintaining a very active Investor Relations function. We are already starting to see a lot more traction in terms of publish from a sell-side perspective. We are quite committed to adding more sell-side coverage. The management has taken a commitment to be actively present in a number of these conferences just to make sure there's enough engagement opportunities. We are also welcome any one-to-one engagement, any investors who want to, we are happy to facilitate.

From our perspective, we are fully committed to making all relevant disclosures to the extent that we need it, as possible from a confidentiality perspective and maintaining a very active channel. And you'll see a lot of traction going on in this path in the coming months.

Do you have any plans to increase the free float and improve stock liquidity in the medium term?
So I think I've already answered the second part of the questions around enhanced investor participation and sellside coverage. I think on the first part, there's no immediate intention to increase the stock liquidity. We are not looking at any incremental dilution at this stage. We might in the medium term look at active dilution from a shareholder perspective. But at this point of time, we believe this -- we have done the dilution to the extent we need. It was done with a strategic objective to bring new set of shareholders. And when we think that there's a need at that point in time, we will be happy to bring incremental liquidity to the market.

From a liquidity perspective, I think we are actively assessing it and we we're quite keen to increase the depth of the shares and the liquidity in the market.

So I think coming back to this -- and there's question coming on the Leejam, JV.
So look, from a forecast perspective, so Leejam JV has been incorporated into the forecast but it's a very minimal, small number because we really expected it to come into play from Q4 onwards, and it's mainly going to start contributing significantly to the overall business from next year onwards. So yes, while it's been included in the full year guidance, it's a very small component. On a margin perspective, we expect it to be a very healthy margin business because as we mentioned it's a very CapEx lite model as we operate within the Leejam gym clubs. So operating cost structure is very lean and these are all very -- number of these services we're incorporating on cash base, high margin ones. So we expect the margins for Leejam, JV to be on the higher end compared to the overall group margins.

How does your strategy and services differ from those of local competitors, Mediclinic, NMC, and other local hospitals?

Yeah, as I had already pointed out in our key group levers, that our main focus is first how we're going to do the organic growth and through complex procedures is what we are looking at and looking into. Plus, as we said, we established the Paley Institute now we are going to establish the IFEM partnership with the French team of doctors taking care of women's health. So these are the key differentiators. We are looking into bone marrow transplant - we are the first ones to introduce bone marrow transplant in UAE from adult to pediatric. So even, we recently had a nine month old baby who was discharged. So we are willing to do complex procedures which any of our other competitors are not doing it. And this has been our strategy locally and even going into different geographies also.

Chetan Sehgal: And just to add to that, I think by design, the strength of the network is very relevant in this kind of scenario. So no one like us focuses on different socioeconomic groups, integrated network of four brands. Our network is designed in a very unique manner which has reach to the patients and then to bring them back into services into different kind of primary, secondary, tertiary, quaternary care segments. We act as a one-stop solution. So we cater to the needs of all the socioeconomic demographics, with high clinical focus in mind and the kind of many services that we bring to the market really differentiates us.

Ends