



ONLINE LIBRARY
(www.onekhmer.org/onlinelibrary)

Title: Corporate Finance

Name of Author WSU's student
Name of Western Sydney University
University
Country of Study Australia
Major Commerce
Degree Master
Course Title
Type of Report
Document
Year 2013-2015

Sonic and Ramsay Financial Analysis Report



SONIC
HEALTHCARE



RAMSAY
HEALTH CARE

Executive Summary

The purpose of this report was to compare the financial position of the two companies, Sonic Healthcare Limited (SHL) and Ramsay Healthcare Limited (RHL), in order to determine which company is better than other for investment. The research for this report used the latest financial reports of SHL and RHL on three consecutive years (2009, 2010 and 2011) as materials so as to carry out the financial ratios calculations in five categories in terms of liquidity, activity, debt, profitability and market. Then the result was form into table in order to conduct the ratios analysis and cash flow analysis. The result shows that both Sonic Healthcare Limited and Ramsay Healthcare Limited are in the leading position in the industry as their financial reports show the high figures of all five ratio categories. However, Sonic Healthcare Limited has a better financial position than Ramsay Healthcare Limited as they have a better performance leading to the strong figures of ratios. In addition, the cash flow comparison of the two companies shows that the SHL has more operation cash flow as well as more healthy capital than RHL. Finally, based on the result of the research, our group, as the investors, recommend that the SHL is better for investment than RHL as they have better financial position.

Introduction

Sonic Healthcare Limited (SHL) is an international medical diagnostics company that offer services like laboratory medicine, pathology and radiology to the medical community. It is a parent company of many operating companies around the world. It is a public company, listed on the Australian Securities Exchange, where it is classified as one of Australia's "Top 100" companies. The company started to grow in 1992 when Michael Boyd and Barry Patterson bought a controlling 23 percent share of the company. Dr. Colin Goldschmidt was appointed by Mr. Boyd as the CEO and then the Managing Director of the company. Dr. Goldschmidt was the main driving force for expanding the business. The doctor's main focus is the company's three main stakeholders- shareholders, customers and staffs. SHL began to build a massive global empire, over the next 13 years, spanning from Europe, Asia, the USA, Australia and New Zealand. It also expanded its business all around Australia (Wynne 2006; Sonic Healthcare 2011).

Ramsay Healthcare Limited (RHL) is a private hospital established in Sydney, Australia in 1964. It was founded by Mr. Paul Ramsay, as the Chairman of Paul Ramsay Group of Companies. He was conferred as an Officer of the Order of Australia in 2002 for his services to the community. RHL has become a global hospital under which 117 hospitals and day surgery facilities are operating around Australia, the United Kingdom, France, Indonesia and other countries. RHL is well-respected in the health care industry for operating quality private hospitals, for managing excellent record and for patient care (About Ramsay Healthcare 2012).

RHL and SHL both are public companies, listed in Australian securities exchange. These companies are forming well in the medical industry with an expectation of double digit growth rate in the next 12 to 24 months. As of 30 June 2011, there were 148,282 holders of RHL common stock. Meanwhile, SHL has 294,535 holders of common stock by the same date (About Ramsay Healthcare 2012; Sonic Healthcare 2011; Wynne 2006). For financial analysis purposes, these two companies were compared and analysed in terms of financial ratios and financial statements starting from the year 2009. Their risk profiles were assessed and provided suggestion to investors to make a decision either, buy, hold or sell their securities.

Financial Analysis

The Financial Ratio Analysis for both RHL and SHL

Liquidity Ratios

	Company	Year		
		2009	2010	2011
Current Ratio:	Ramsay Healthcare	1.01	1.09	1.08
$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Sonic Healthcare	1.20	0.90	1.66

The Current Ratio (CR) measures the firm's ability to meet its short-term obligations (Gitman et al 2008; Hoggett et al 2009). The CR of SHL is higher compared to RHL, as shown above. This means that SHL is in a better position to meet its short-term obligation compared to RHL.

	Company	Year		
		2009	2010	2011
Quick Ratio:	Ramsay Healthcare	0.91	0.97	0.96
$\frac{\text{Current Asset} - \text{Inventory}}{\text{Current Liability}}$	Sonic Healthcare	1.14	0.84	1.53

The Quick Ratio (QR) measures the firm's ability to pay its short term obligations by excluding the company's inventories (Gitman et al 2008; Hoggett et al 2009). This measures only the company's most liquid assets to pay its short-term debts. As per the ratios shown above, SHL is the most liquid compared to RHL. This means that SHL would have more capabilities to pay its debts on time.

Activity Ratios

	Company	Year		
		2009	2010	2011
Inventory Turnover Ratio:	Ramsay Healthcare	11.65	12.81	14.92
$\frac{\text{Cost of Goods Sold}}{\text{Inventory}}$	Sonic Healthcare	4.01	4.66	5.97

Inventory Turnover Ratio measures the activity, or liquidity, of a firm's inventory (Gitman et al 2008; Hoggett et al 2009). As shown above, RHL has more inventory turnover ratio due to high volume of patients the company is servicing everyday compared SHL. At the same time also, RHL is holding its inventory for a maximum of only 32 days compared to SHL's maximum of 91 days. This means that RHL is employing Just-in-Time inventory system in order to save on its Overhead Expenses.

		Year		
		2009	2010	2011
Total Asset Turnover Ratio:	Company			
Sales	Ramsay Healthcare	1.01	0.95	1.05
Total Assets	Sonic Healthcare	0.63	0.61	0.65

Total Asset Turnover Ratio indicates how efficiently the firm uses all its assets to generate sales (Gitman et al 2008; Hoggett et al 2009). Each dollar of assets used in RHL generated 1.05 times of revenue in 2011. However, the ratio decreased to 0.95 times in 2010 due to some market factors. As with SHL, each dollar of assets generated 0.65 times in 2011 and 0.61 in 2010. RHL assets are generating more sales in comparison with SHL. If the firm uses the cost of new assets then the ratio is smaller and vice versa.

Debt Ratios

		Year		
		2009	2010	2011
Debt to Equity Ratio:	Company			
Total Liability	Ramsay Healthcare	71.47%	65.78%	63.29%
Total Asset	Sonic Healthcare	46.82%	47.39%	46.61%

Debt-to-Equity Ratio measures the proportion of total assets financed by the firm's creditor (Gitman et al 2008; Hoggett et al 2009). As per the ratios shown above, RHL has more financial leverage compared with SHL. This means that RHL is using higher amount of other people's money to generate profits compared with Sonic Health Care. However, this would also mean that Sonic Health Care is more capable of producing its own assets to pay its liabilities.

		Year		
		2009	2010	2011
Time Interest Earned Ratio:	Company			
	Ramsay Healthcare	3.16	4.24	5.18
EBIT				
Interest				
	Sonic Healthcare	3.88	7.16	6.49

Time Interest Earned Ratio measures the ability to make contractual interest payments (Gitman et al 2008; Hoggett et al 2009). RHL's time interest earned ratio went up for the past 3 years from 3.16 to 5.18. This means that RHL has the great ability to make contractual interest payments. However, SHL has greater ability to pay its contractual interest with ratios from 3.88 to 7.16. Both RHL and SHL have a good margin of safety for their ability to pay for their interest.

Profitability Ratios

		Year		
		2009	2010	2011
Gross Profit Margin Ratio:	Company			
	Ramsay Healthcare	9.30%	9.70%	10.60%
Gross Profit				
Sales				
	Sonic Healthcare	11.83%	15.86%	15.44%

Gross Profit Margin Ratio (GPM) indicates the percentage of each dollar sales remaining after the company has paid for its goods (Gitman et al 2008; Hoggett et al 2009). As shown from the table, the GPM of RHL slightly increases over the 3 year period, from 2009 to 2011. On the other hand, SHL's GPM has a considerable rise on the first two years, 2009 and 2010, and slightly decreases in 2011. Generally, SHL has a greater GPM than RHL during 3 year period. It means that SHL has a greater chance to leave a greater net profit for proprietors or shareholders after covering all administrative and selling expenses, interest and tax.

		Year		
		2009	2010	2011
Net Profit Margin Ratio:	Company			
	Ramsay Healthcare	3.30%	4.38%	5.39%
Net Profit After Taxes				
Sales				
	Sonic Healthcare	5.76%	9.88%	9.55%

Net Profit Margin Ratio (NPM) measures the percentage of each dollar sales remaining after all expenses, including interest and taxes, have been deducted

(Gitman et al 2008; Hoggett et al 2009). As shown in the table above, RHL's NPM has a significant rise during a period of 3 years, from 2009 to 2011. SHL experienced a considerable growth in the first 2 years, 2009 and 2010. However, it has slightly dropped in 2011. Overall, SHL has run its business more profitably than RHL, especially in the last 2 years.

	Company	Year		
		2009	2010	2011
Return on Total Assets	Ramsay Healthcare	3.34%	4.16%	5.64%
<u>Net Profit After Taxes</u>				
Total Assets	Sonic Healthcare	3.62%	6.04%	6.24%

Return on Total Assets Ratio (ROA) measures the overall effectiveness of management in generating profits with its available assets (Gitman et al 2008; Hoggett et al 2009). Each dollar of RHL's assets in 2009 generated a return of 3.34 in 2009, increased to 4.16 in 2010 and further increase by 5.64 in 2011 due to increase in net income. SHL's ROA is in increasing order from 2009 to 2011 because of increase in profits each year. Even though ROA in both companies are in increasing trend, still SHL's ROA is higher than RHL in three years.

	Company	Year		
		2009	2010	2011
Return on Equity :	Ramsay Healthcare	23.76%	20.86%	28.08%
<u>Net Profit After Taxes</u>				
Ordinary Shareholders' Equity	Sonic Healthcare	10.86%	12.53%	12.56%

Return on Equity Ratio (ROE) measures the return earned on the shareholders' investment in the company (Gitman et al 2008; Hoggett et al 2009). Calculations reveal that the RHL has run the business with the great and increasing ROE. SHL's ROE is increasing year by year which means that the company is more profitable. RHL is running the business more efficiently, with the investment from the shareholders, than SHL. This means that the profit of SHL's business is not equivalent to the investment that the shareholders have invested.

	Company	Year		
		2009	2010	2011
Earnings Per Share	Ramsay Healthcare	0.51	0.69	0.91
Earnings Available for Ordinary Shareholders				
Numbers of Ordinary Shares Issued	Sonic Healthcare	0.47	0.76	0.76

Earnings Per Share (EPS) represent the number of dollars earned on behalf of each share for the present or prospective shareholders and management (Gitman et al 2008; Hoggett et al 2009). RHL's EPS is increasing consistently which would entice present and prospective shareholders to invest more in the company. SHL's EPS increased 0.30 cents from 2009 to 2010. However, it went steady on 2011. This would indicate that RHC has more corporate success than SHL.

Market Ratios

Sonic Healthcare Limited Market Price Chart



*SHL, Sonic Healthcare Ord', 2011, charts, viewed 30 October 2012, http://hfgapps.hubb.com/asxtools/Charts.aspx?asxCode=shl&compare=comp_index&indicies=0&pma1=30&pma2=30&volumeInd=10&vma=0&TimeFrame=M10

Ramsay Healthcare Limited Market Price Chart



*RHC, Ramsay Healthcare Ord', 2011, viewed 30 October 2012, http://hfgapps.hubb.com/asxtools/Charts.aspx?asxCode=RHC&compare=comp_index&indices=0&pma1=0&pma2=0&volumeInd=9&vma=0&TimeFrame=M10

	Company	Year		
		2009	2010	2011
Price/Earnings Ratio	Ramsay Healthcare	20.96	14.34	14.69
Market Price Per Ordinary Share				
Earnings Per Share	Sonic Healthcare	26.27	13.81	16.98

Price/Earnings Ratio (PER) is commonly used to assess the owners' appraisal of share value (Gitman et al 2008; Hoggett et al 2009). The market prices of RHL's per ordinary share were 10.75, 9.95 and 13.34 in three years. Accordingly, earning per share were 0.513, 0.694 and 0.908, respectively. The market prices of SHC per ordinary share were 12.32, 10.43 and 12.87 in three years. Accordingly, earning per share were 0.469, 0.755 and 0.758, respectively. Both companies' market prices of per

ordinary share showed an upward trend as a whole. However, EPS of RHC were higher than SHC. The level of the P/E ratio indicates the degree of confidence that investors have in the future performance. As shown in the table above, both of the companies' P/E ratio decreased, although their market prices went up in three years.

Cash Flow

Operating Cash Flow

SHL and RHL's profitability, as shown by their ratios in the beginning of this report, is an important investment evaluator. It would be a quick and easy way to judge their overall performance. However, it does not actually reflect the amount the companies have received from the profits illustrated in the ratio. Sometimes it could be a vital distinction as cash flow is the lifeblood of the company.

To decide on an investment, the investors should analyse both companies' cash flow information associated with profit or loss and financial position information. Operating Cash Flow or Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is a key indicator of a company's ability to generate cash to meet obligations (Gitman et al 2008; Hoggett et al 2009). Both Cash Flow Statements of SHL and RHL show these two companies' ability to generate consistently positive cash flow from operations.

	Company	Year		
		2009	2010	2011
Operating Cash Flow	Ramsay Healthcare	\$242 M	\$337 M	\$430 M
EBITDA - Taxes	Sonic Healthcare	\$430 M	\$430 M	\$409 M

Cash Flow from Operations Assessment

Even strong operating cash flow of RHL may reduce its leverage. RSL's existing debt of \$1.9 billion matures in November 2012. The new debt three and five year maturities allows for the refinancing of the existing debt and provide approximately \$600 million to \$700 million for continuing developments and working capital. However, the new debt has competitive pricing, improved terms and conditions and is unsecured (About Ramsay Healthcare 2012). Market uncertainty and RHL's unsecured debts brings higher risk to the investors.

However, Sonic Healthcare Ltd is currently regarded as top stock in cash flow from operations category among related companies. It has \$430 M in Cash Flow from

Operations every year. This is 3.26% higher than that of Healthcare sector, and 10.32% higher than that of Hospitals industry, The Cash Flow from Operations for all stocks is 20.36% higher than the company. SHL has more Cash Flow from Operations as well as more healthy capital and sound finance than RHL (About Ramsay Healthcare 2012; Wynne 2006; Sonic Healthcare 2011).

In conclusion, as a blue-chip stock in Australia, SHL has strong and stable operating cash flow around \$430 million. When the investors check and evaluate on the quality of company earnings, it might help to increase the confidence of loyal investors to make more investment. As competitive stock, RHL has significant increasing operating cash flow from \$242 million to \$431 million from 2009 to 2011. Also the EPS continue to improve; it may help to attract more new investors. As a smart investor, the best way is to establish the combination investment portfolios. The benefit of diversification is to minimum the risk and maximise the return. However, if the investors have to choose one, Sonic Healthcare Limited is the first preference.

Recommendations

The tabulated ratios above show both company, RHL and SHL, performances for the past three years, from 2009 to 2011. Sonic Healthcare Limited (SHL) shows very strong figures in each ratio categories. The ratios for this company show it is leading in its industry. The liquidity ratios for the company are more than 1. This shows that it can always pay its debts when due or on demand. The company's activity ratio is a bit low. However, the company might be adopting another inventory method to stack up on its supplies to serve its clients well. This also prevents running out of supplies for the business. The company's debt ratios are also low due to self sufficiency of the company. The company is earning enough profit to sustain its operations. However, with this ratio, the company has lesser financial leverage. With the profitability and market ratios, the company is really doing well in its business in terms of profit.

Ramsay Healthcare Limited (RHL) on the other hand, industry wise, is still very competitive. The company's ratios are still above its industry in terms of liquidity, activity, debt, profitability and market ratios. However, compared with Sonic Healthcare Limited (SHL), the company lags behind in all its ratios. It is only in debt-to-equity ratio where RHL has more financial leverage. This is because RHL is using more investors' money to finance its business operations.

The group would recommend Sonic Healthcare Limited for investors to invest in due to its strong financial performance internally and in the market. This performance has much been contributed by Dr. Goldschmidt's focus on the three main stakeholders- shareholders, customers and staffs (Wynne 2006; Sonic Healthcare 2011).

References:

1. Wynne, M, 2006, 'Australain Section: Sonic Healthcare (and its partners Foundation Healthcare, Lifecare and IPN), January 2006, viewed 30 October 2012, <<http://www.uow.edu.au/~bmartin/dissent/documents/health/sonic.html#People>>
2. 'About Ramsay Healthcare', 2012, viewed 30 October 2012, <<http://www.ramsayhealth.com.au/About-Us/default.aspx>>
3. 'About Us: Sonic Healthcare', 2011, charts, viewed 30 October 2012, <<http://sonichealthcare.com/about-us/corporate-overview.aspx>>
4. 'SHL, Sonic Healthcare Ord', 2011, charts, viewed 30 October 2012, <http://hfgapps.hubb.com/asxtools/Charts.aspx?asxCode=shl&compare=comp_index&indicies=0&pma1=30&pma2=30&volumeInd=10&vma=0&TimeFrame=M10>
5. 'RHC, Ramsay Healthcare Ord', 2011, viewed 30 October 2012, <http://hfgapps.hubb.com/asxtools/Charts.aspx?asxCode=RHC&compare=comp_index&indicies=0&pma1=0&pma2=0&volumeInd=9&vma=0&TimeFrame=M10>
6. Gitman, L J, Juchau, R H, Flanagan, J, 2008, 'Principles of Managerial Finance', 5th ed, Pearson Education, NSW, Australia
7. Hoggett, J, Edwards, L, Medlin, J, Tilling, M, 2009, 'Financial Accounting', 7th ed, John Wiley & Sons Australia Ltd, Queensland, Australia
8. <<http://www.asx.com.au/asx/research/companyInfo.do?by=asxCode&asxCode=SHL#details>>, viewed 30 October 2012
9. <<http://investing.businessweek.com/research/stocks/charts/charts.asp?ticker=RHC:AU>>, viewed 19 October 2012

Appendix A:

Sonic Healthcare Financial Reports for 2009, 2010 and 2011

Appendix B:

Ramsay Healthcare Financial Reports for 2009, 2010 and 2011