LYC gears up for profitability

Service provider rides on healthcare demand and business expansion

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HEALTHCARE

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>
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LYC Healthcare Bhd's strategy to reposition itself as a healthcare service provider seems to be working.

After almost a decade of losses, the former mobile services company expects to finally turn profitable in its current financial year ending March 31, 2021 (FY21).

Its recent foray into Singapore's healthcare segment will be a key catalyst for LYC to return to the black.

Speaking with *StarBizWeek*, group chief executive officer and managing director David Sui says this will be possible with the consolidation of earnings from its Singapore-based one-stop chronic disease centre, T&T Medical Group Pte Ltd.

In addition, the commencement of the group's new healthcare facilities in the near term would also lift LYC's earnings in FY21.

Sui says the new healthcare facilities are a child-care centre in Taman Tun Dr Ismail, a confinement centre in Bukit Jalil, a cosmetic and aesthetic centre in Bangsar South, as well as a fertility centre in collaboration with the University Malaya Medical Centre.

LYC adopted its current name on Jan 4, 2019 to better reflect its future direction in the healthcare industry. The group, which was formerly known as Mexter Technology Bhd, ventured into the healthcare business in 2017.

LYC targets niche segments with robust growth and demand such as postpartum care, senior living care, child care, cosmetics and aesthetics, fertility, general medical and specialised medical services.

Malaysians and Singaporeans' increasing propensity to spend on quality healthcare services, as well as the growing population of people aged 65 and above in both countries are major catalysts for LYC's healthcare business, which has become the largest revenue contributor to the group.

Banking on these factors, LYC has grown rapidly in the last few years through the opening of new centres. Nevertheless, the group continues to look out for attractive acquisition opportunities in the healthcare scene.

Moving forward, the aim is to consolidate and enhance its service offerings in new and existing centres in order to achieve optimal operating leverage.

"We are exploring deals in the Malaysian and Singaporean markets and will look at segments which will complement our existing healthcare platform," Sui tells *StarBizWeek*.

On May 4, LYC acquired a 51% stake in Singapore-based healthcare centre T&T Medical, which focuses on chronic degenerative joint diseases and spine, pain management as well as metabolic diseases like diabetes mellitus, hypertension and high cholesterol.

The deal, worth SG$7.29mil (approximately RM22.27mil) comes with an aggregate profit guarantee of SG$3.9mil for FY22-FY24, or an average profit guarantee of SG$1.3mil per financial year.

"Based on the value accorded to the 51% equity interest in T&T Medical of SG$7.29mil, the purchase consideration represents a price-to-earnings multiple of 11 times of forward earnings based on the average profit guarantee of SG$1.3mil," LYC said in a Bursa Malaysia filing earlier.

Sui says that the acquisition of T&T Medical offers synergistic benefits, whereby the senior living customer database of its Malaysian business will be used to generate referrals for T&T Medical's chronic disease centre in Singapore.

In addition, LYC plans to leverage on T&T Medical's experience and expertise to establish a similar chronic disease centre in Malaysia.

For context, in December 2019, LYC set up a new subsidiary called LYC Osteoporosis & Chronic Disease Sdn Bhd, which will be similar to T&T Medical.

"We have identified a potential site within the Klang Valley to set up the Malaysian operations.

"Once the Malaysian business is established, our senior living customers can decide between choosing to do their chronic disease treatment or consultation in Singapore or Malaysia, depending on their budget," he says.

Sui adds that LYC is also actively engaging with foreign agents, who specialise in medical tourism, to generate leads in countries such as China, Thailand and Indonesia to receive treatment in the group's healthcare facilities.

The growth of its healthcare services business has helped to improve LYC's top line, although the group remained loss-making as at end-2019.

In the first nine months of FY20 ended Dec 31, 2019, LYC's cumulative revenue climbed 82% or RM4.2mil against the corresponding period to RM9.34mil, thanks to the increase in the number of customers at its postpartum centre.

In addition, the family clinic and senior living business were also contributing factors to the increase in revenue for the nine-month period.

For perspective, almost 63% of the RM9.34mil revenue was contributed by LYC's healthcare services business, while the remaining 34% was contributed by the computer electronic services as well as other businesses.

The stronger revenue, however, was set off by the MFRS 16 impact recognised during the third quarter, largely contributed by the higher depreciation and finance costs amounting to RM1.92mil.

Additionally, the group also incurred a start-up cost for its postpartum centre in Puchong, which opened in July 2019.

As a result, LYC recorded a net loss of RM5.59mil in the first nine months of FY20, which is wider than the RM3.63mil net loss a year earlier.

On May 4, on the same day it announced the proposed acquisition of T&T Medical, LYC also proposed to place out 30% of its outstanding ordinary shares.

The group says that about RM26.65mil to RM26.8mil could be raised from the proposed private placement exercise, based on an indicative issue price of 25 sen for each new placement share.

About RM18.36mil or 69% of the amount raised is intended to be utilised for the group's business expansion over the next 24 months.

LYC also points out that the proceeds could be channeled to part or fully finance the proposed acquisition of T&T Medical.

"In this respect and subject to the successful procurement of placee(s), the board intends to implement the proposed private placement before completion of the proposed acquisition.

"In the event LYC is unable to identify any placee(s) for the proposed private placement, the company may fund the purchase consideration through a combination of internally generated funds and/or bank borrowings," said LYC in a filing.

Sui was asked to comment on concerns that the 30% private placement would be highly dilutive on the group's share base, considering that LYC has just placed out the fifth tranche of shares under its previous round of private placement.

For context, as of March 27, LYC had placed out 30.5 million shares out of the 32.49 million new shares approved for the prior private placement.

In response to this, he says that the group does not intend to use the bulk of the 30% placement, if it can fund the acquisition of T&T Medical via bank borrowings.

"Currently, talks are going well with the banks and we are confident of getting their approval soon.

"We want to minimise dilution, as the main goal is always to create shareholder value," he says.