Spire’s share price spikes over rumours of acquisition by Devi Shetty’s Narayana Health

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Spire Healthcare, the UK’s largest for-profit hospital group, saw its shares jump 9% on the morning of Friday November 29, after rumours were published in the Indian press that Indian hospital group Narayana Health was looking to acquire it. The shares dropped back down again, however, after Narayana released a statement saying there is “no material information or event” requiring disclosure at this time.

London-listed Spire saw its share price shoot up to £239.47 at opening on Friday November 29, a 9% increase on its value of £219.50 at close of trading on Thursday.

The cause was an article in Indian business newspaper The Economic Times, which claimed Narayana Health, an Indian hospital group owned by Indian billionaire Devi Shetty, was in “advanced talks” to acquire a controlling stake in the group.

But Narayana Health has now attempted to pour cold water on the rumours that it is in advanced stages of acquisition talks. It published a statement saying:

“At this point in time, there is no material information or event that require disclosure under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 or any other applicable law.”

The wording of the statement appears, however, to leave open the possibility that the group is at least considering an acquisition, saying it “evaluates and explores various strategic opportunities on an ongoing basis in healthcare sector for growth of its business and investment opportunities” and that it will make appropriate disclosures “as and when such requirement arises”.

“It certainly wouldn’t be the first time an Indian player has looked at buying a major UK hospital group,” Leonid Shapiro, Partner at Candesic, a consulting firm, tells us.

“It’s part of many of these operators’ general expansion strategy to buy internationally, and the UK is an obvious choice given India is an English speaking country. We’ve been approached by Indian operators to buy UK operators on multiple occasions over the past 15 years, although nothing ever came of that. Generally, the issue is that UK hospitals tend to be quite expensive, in terms of the real estate or rent, but also staffing. Everything for UK hospitals is more expensive to run, and the capex costs are much higher. If they’re looking to buy x number of hospitals, they find that it costs a lot more than if they were to build that many new hospitals in India or acquire that many in another country.”

However, he added: “Spire’s stock price has been pretty stable for a while in November, then today it shot up to 240, but now it’s dropped back down to the 220s. So, the market doesn’t necessarily think this deal is likely to happen.”

Charles Weston, Senior Healthcare Analyst at RBC Capital Markets, an investment bank, did not want to speculate on whether the deal would happen, but he did tell us:

“We have seen interest in the UK market from (South African hospital group) Mediclinic, which already holds a minority stake in Spire, although there is arguably a question over whether it’s a core holding for them. And Ramsay has got its UK business. So it’s not exceptional for a foreign hospital group to want to buy a UK group. There’s lots of patient demand in the UK, with NHS waiting lists being so high and PMI increasing. So the UK would seem to be a relatively attractive market place.

“Also, Spire’s valuation continues to be low. The company has a high fixed cost base, with a lot of physical infrastructure, but also a lot of staff. With staffing and other costs having gone up quite a lot over the past few years they’ve been unable to generate good returns for several years now. But now with covid in the rearview and a new management team that has been in place for a few years, the company has a plan to deliver stronger margins. We believe they can achieve this, which is why we’ve given the company’s shares an ‘outperform’ rating.”

Leonid Shapiro was less sure that Spire is currently undervalued, saying: “Spire’s price-earnings ratio is currently 29x, whilst the industry average is 21x, so it’s not necessarily cheap. The price-to-book ratio is lower, and the price-to-sales ratio is lower. But all these metrics are blunt comparison instruments, so it’s hard to say if it is cheap or expensive.”

We would welcome your thoughts on this story. Email your views to Martin De Benito Gellner or call 0207 183 3779.

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