Adventa’s business turnaround bearing fruit

Benefits will flow in when home-dialysis machines hit the market by year-end or early next year.

By Ye Cheng Tong

ADVENTA Bhd, which exited its medical glove manufacturing in November 2012, is seen to be profiting from its new medical devices operations.

The company expects to fully reap the benefits of the change in its business direction when its home-dialysis machines hit the market by the end of this year or early next year.

Its first quarter ended June 30 (Q1FY14), Adventa posted a 241% increase in net profit over the preceding quarter’s RM1.36 mil. Its healthcare product division saw revenue improve by 98% to RM7.1 mil, from RM3.2 mil the year before.

Kwok Seow Leng, the company’s chief executive officer, said: “Our share of the sterilisation provider segment’s revenue rose by 45% to RM3 mil.

In a recent report, Hong Leong Investment Bank notes that based on the Q1 performance, it expects a stronger Q2FY14 financial result.

The management expects to achieve a revenue of more than RM440 mil with an EBITDA margin of at least 30% from its home dialysis and healthcare product distribution businesses over the next five years.

Adventa acquired a 100% stake in Electron Beam Sdn Bhd (EBSS) in July 2012 together with its wholly-owned subsidiary Lucentia (M) Sdn Bhd (LMSB) for RM9 mil. EBSS is in the healthcare segment providing industrial and commercial sterilisation, warehousing and handling services and LMSB focuses on home dialysis.

In an interview with FocusMalaysia, executive director Kwok Seow Leng says the company’s previous glove manufacturing was subject to fluctuations in commodity prices, foreign exchange and volatile market conditions, which saw the company’s finances showing a cyclical trend.

“Adventa wants to be in a more sustainable and less cyclical business. We continue to be in the same business segment (healthcare) but with a greater focus on medical healthcare services, particularly in the dialysis business, where patients with chronic kidney failure are increasing year-on-year,” says Kwok.

Likewise, the number of patients suffering from diabetes and end-stage renal disease (ESRD), the last stage of chronic kidney disease, is also growing.

“The big increase in the number of ESRD patients in Malaysia is synonymous with that in other countries,” he adds.

Over three million people worldwide are estimated to be suffering from ESRD, with a limited number of kidney donors, an average of 2.5 million people will need haemodialysis. Haemodialysis requires patients to visit a dialysis centre three or four times a week for three to four hours per session.

Kwok notes with the increase in patient numbers, available haemodialysis centres may not be a viable option.

Based on the Malaysia Dialysis & Transplant Registry 2013, the number of dialysis patients increased 167% to 33,857 last year from 11,442 people in 2004.

Kwok notes with the increase in patient numbers, available haemodialysis centres may not be a viable option.

Malaysia, via its Economic Transformation Programme (ETP), has initiated a roadmap for the implementation of peritoneal dialysis (PD), used as an alternative to haemodialysis, by adopting a “PD First” media operating. Similar initiatives have been adopted by Thailand, Hong Kong and Mexico.

Accelerated growth

The PD process uses the patient’s peritoneum in the abdomen as a membrane across which fluids and dissolved substances, including urea and glucose, are exchanged from the blood. Fluid is introduced through a permanent tube in the abdomen and flushed out every night while the patient sleeps or through regular exchanges throughout the day.

Adventa said in a recent announcement that its subsidiary Lucentia (M) Sdn Bhd has started commercial operations for the provision of home PD, designated by the Performance Management and Delivery Unit (Pemandu) as a project under the ETP.

A local analyst tells FocusMalaysia he expects the healthcare industry to record continued growth as he envisions the ETP accelerating the growth of the healthcare sector.

Overall healthcare travellors (2007-2013)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of healthcare travellers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>900,000</td>
</tr>
<tr>
<td>2008</td>
<td>700,000</td>
</tr>
<tr>
<td>2009</td>
<td>500,000</td>
</tr>
<tr>
<td>2010</td>
<td>300,000</td>
</tr>
<tr>
<td>2011</td>
<td>100,000</td>
</tr>
<tr>
<td>2012</td>
<td>200,000</td>
</tr>
<tr>
<td>2013</td>
<td>300,000</td>
</tr>
</tbody>
</table>

*Overall travel response rate is 100%.

Source: NHIC

With rapid ageing, the rise of the middle-income group and health tourism in Malaysia, the increase in the population will develop the healthcare industry target market," says the analyst.

He further notes that based on data from the Malaysia Healthcare Travel Council, Adventa may see stronger growth. According to the council, the number of healthcare travellers rose 129% to 770,134 last year from 336,225 in 2009.

Adventa did not disclose the cost advantages of home dialysis or the prices of its home-dialysis products.

Based on a report issued by Thailands National Health Security Office, the annual cost of haemodialysis in Thailand is about 400,000 baht (RM46,531) compared to PD, which costs up to 340,000 baht.

Increasing R&D costs

Raising research and development costs expected to develop its home dialysis products have put a damper on Adventa’s recent earnings. The company recorded a 5.89% decline in Q3 profit before tax to RM4.95 mil from RM5.2 mil the year before.

The company says the lower profit owes to heightened expenditure in the home-dialysis business, in which product trials are ongoing. “We are using our existing funds, together with support from the Health Ministry,” says Kwok. “More funding is needed and the company will take on bank borrowings, as the debt level of the group is minimal.”

She says Adventa will aim for government-funded patients and private patients suffering from ESRD.

Hong Leong Research says the company’s home renal-dialysis business accounts for 14% of its total revenues.

According to the analyst, Adventa has first-mover advantage in home renal-dialysis treatment. It adds the successful rollout of the high-growth home renal-dialysis business is in part dependent on the government’s support in providing subsidies to patients requiring the treatment, given high average cost of RM3,200 per patient per month.

For its sterilisation provider segment, Adventa is seen to be operating in a business with few players in terms of commercial sterilisation and warehousing in Asia.

Hong Leong further notes that with relatively high entry barriers, competitors will be few due to the high cost of machinery and technological know-how.

Kwok says though Adventa is relatively new to the healthcare industry, it will be able to compete as it has built an excellent R&D team supported by staff with experience in healthcare management and patient care.

Having developed its own home-dialysis products, the company has sought to protect its intellectual property by securing patents for their technology, and this enables Adventa to manage industry competition, she notes.

Kwok confirms that with the venture into the home-dialysis segment, the company has no current plans to further diversify its operations.

Following the sale of its glove manufacturing and trading business, Adventa fell into Practice Note 17 classification in January last year. In February, it was removed from FN17 status after Ihsa Malaysia Securities approved its application for a waiver to submit a regularisation plan.

ADVENTA BHD

Key board members and management

Low Chin Quee (managing director)

Kwok Seow Leng (executive director)

Major shareholders

Kuala Lumpur Share Trading Association Banca

Lembaga Tabung Haji

Market cap (Nov 19)

RM139m

Share price (Nov 19)

91 sen

52-week high (Feb 21, 2014)

RM1.34

52-week low (Oct 16, 2014)

86 sen

Financial results

Q3 ended Aug 31, 2014 (unaudited)

Revenue

RM10.90m

Net profit

RM1.36m