

# Medibank Private - a good stock but no bargain

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Healthy competition: Medibank is the biggest health fund but cracks are appearing in the brand name. *Photo: Chris Hopkins*

Medibank Private shares are likely to cost \$2 considering they're trading in a pre-listing shadow market operated by IG Markets at \$2.15.

To keep demand bubbling along the government might trim that to, say, \$2.10 when it sets the price on November 25 – the float closes on Friday – but you and I would still only have to pay \$2.

That'd be a handy stag profit, but then what?

Its dividend will be 3.5 per cent a year, a return of 5 per cent after the 30 per cent tax credit for franking. So long as it holds its price, which it should since health insurance is growing faster than GDP, that sure beats a term deposit.

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Then again it's not as good as the banks: NAB returns 8.3 per cent including franking.

Even BHP is yielding 4 per cent – no, 5.7 per cent with the tax credit from franking – and its policy is to increase its dividend every year, a commitment missing from Medibank Private.

Truth is, Medibank Private is a good stock but no bargain. Let's face it, its appeal is that most other government privatisations take off, some sooner and more spectacularly than others, so why not it?

And fund managers have to buy it because it will loom so large in the ASX200 index.

At least for policyholders who stick around it's a buy. If Medibank cuts its benefits or becomes uncompetitive, you could take your ailments elsewhere or snatch a bit back as a shareholder. There's something reassuring about owning shares where you shop.

So why the poor turnout with only 14.6 per cent of policyholders signing up for a prospectus?

Maybe they're miffed at not getting a discount – me, too but I'll get over it – though the way it's going they probably will. It just won't be more than everybody else's.

Medibank is the biggest health fund but cracks are appearing in the brand name which is losing market share, though offset by gains by its discount offshoot AHM.

And one of its key strategies is "to reduce costs and improve customer experience." Oh dear, where have you heard that before? Cost cutting and better service – it admits to "labour cost-saving initiatives" that "are expected to be implemented during 2014-15" – aren't natural soulmates.

The prospectus says policyholders are downgrading their cover and new customers "are forecast to have lower cover policies." That makes cost cutting sound more like survival than a windfall.

Revenue growth is forecast to slow next year and, worse, Medibank's profit will even fall slightly. And that's mainly because it lost a \$230 million contract

for health checks for foreigners applying for visas to its biggest rival Bupa, or the "division of a large multinational not-for-profit company" as the prospectus calls it.

Hmm, not a good start.

Still, if Medibank does reduce its benefits or lift premiums – or, heaven forbid, both – the prospectus has a tip.

There's no waiting period if you find a better fund. "This is possible even immediately prior to receiving treatment," it points out.


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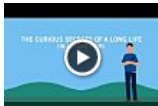
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