Investors Search For Yields In U.A.E. Healthcare Market

An upswing in greenfield projects brings greater capital inflow to the U.A.E. healthcare sector, as confidence in project completion and cost-effective execution grows.

BY INGA STEVENS

While forecasts for the U.A.E's growth in 2016 have been scaled back (the International Monetary Fund expects the economy to expand by 2.6% rather than the 3.1% it predicted in October), sentiment in the country's healthcare sector is bucking that trend.

Public and private investment in the Middle East's healthcare sector is set to exceed $150 billion this year. And with a number of greenfield and expansion projects entering the market, the move to develop a knowledge-based economy by investing in high value-adding sectors appears to be paying dividends.

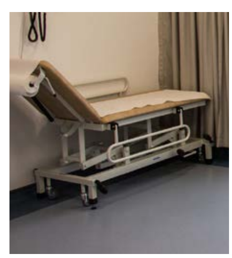
The U.A.E. Cabinet approved a pared-down federal budget of $13.2 billion for 2016, compared to $13.3 billion in 2015, with 7.9% allocated for health services. By comparison the U.S. spends about 19% of its budget on health. In common with many emerging market economies, the significant gap between the U.A.E.'s healthcare spend as a percentage of GDP versus what is required to satisfy needs, is a significant growth driver in the healthcare services that are delivered, with the private sector expected to account for a major share of total health spending.

Public-Private Partnerships (PPPs) have been a cost-effective way for the U.A.E. government to engage capital-intensive projects with significant private sector involvement. Preferring to employ Build, Operate & Transfer (BOT) PPP models, this provides assurance in project completion and cost-effective execution to major global investors, encouraging a greater capital inflow into the country's healthcare sector.

Many of the healthcare investments in the past have been in hospitals, clinics and laboratories and, as a consequence, several groups expanded their presence significantly across the U.A.E., says Jens Yahya Zimmermann, partner & MD at Dubai-based growth capital firm New Silk Route.

Despite a high number of projects expected to enter the market in 2017/18, only a few have opened their doors to the paying public, with market demand growing faster than the pace of project completion.

"Investors have generally shied away from funding pure greenfield projects, especially after the advent of the global financial crisis," says Zimmermann, who explains that now the U.A.E. has more healthcare groups that are larger and diversified, it is easier to attract investment for expansion projects, including greenfield, because these projects are now only a smaller part of the overall value of a group.



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FACTS

500,000
medical tourists are expected to flock to Dubai alongside ExPo 2020.

4.1 million square feet are covered by Dubai's Healthcare city.

Investors are further comforted by the track record of executing previous expansion projects, while sufficient global liquidity and the search for yields have made it easier and cheaper for U.A.E. entities to raise funds in capital markets. The key will be sustaining this access, as the majority of projects will require backing from several sources due to their size.

As a leading investments conglomerate, Dubai Investments PJSC is also eyeing strong growth in the healthcare domain, recently announcing an investment of 26.75% of total equity financing for a $200 million multi-disciplinary hospital and clinics project, King's College Hospital, in Dubai. The facilities will be managed by a joint venture between Al Tayer Group, Dubai Investments and the U.K.-based Ashmore Group.

"With an estimated $1.5 billion needed by 2020 to provide the required 1,500 new hospital beds in the emirate, Dubai Investments is partnering with King's College Hospital London to support the future healthcare needs of the community," says Khalid Bin Kalban, MD and CEO of Dubai Investments, who sees the increasing availability of internationally accredited health care services as paving the way for the growth of medical tourism in the U.A.E.

As Dubai prepares to welcome 500,000 medical travelers by 2020, it aims to generate more than $3.2 million revenue from medical tourism in 2016 and to surpass its 2020 target revenue of $7 million by an additional 20%.

"We have developed a medical tourism strategy which was chalked out after extensive consultation and feedback with key private and government stakeholders," explains Dr. Layla Al Marzooqi, director of the Dubai Health Authority's (DHA) Dubai Medical Tourism Office, as the authorities' willingness to support private sector involvement intensifies.

The U.A.E.'s healthcare industry remains a profitable and attractive investment opportunity with only a medium threat from both competition (growing population) and the bargaining power of customers (limited number of quality, private sector facilities). As long as barriers to entry remain relatively high—as finding investors for infrastructure projects can be difficult—those who already have a head start can be confident of investor returns.

Investors today have a higher degree of comfort with healthcare investments in the U.A.E. than in the past and the industry outlook remains positive, says Zimmerman. Any existing healthcare market challenges can be easily allayed by continued active government support and readiness of the private sector to capture a share of an industry. F

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