

BANGKOK CHAIN HOSPITAL PLC

No. 208/2024
8 November 2024

CORPORATES

Company Rating: A
Outlook: Stable

Last Review Date: 16/11/23

Company Rating History:

Date	Rating	Outlook/Alert
04/11/21	A	Stable
08/11/19	A-	Positive
17/09/09	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Bangkok Chain Hospital PLC (BCH) at “A”, with a “stable” outlook. The rating reflects the company’s strong position in the middle-income patient segment and patients covered by the government social security coverage (SC) scheme, and its strong balance sheet. However, these strengths are tempered by the competitive environment of the healthcare service industry, exposure to regulatory risk, and external factors influencing the number of international patients.

KEY RATING CONSIDERATIONS

Diverse patient base across large network of hospitals

The company’s competitive strength stems from its track record in Thai healthcare services, extensive experience in the social security market, and disciplined cost management. As of August 2024, BCH operated a network of 16 hospitals and two clinics, with 2,313 registered inpatient beds. The company generated total operating revenue of THB11.8 billion in 2023, and THB5.7 billion in the first half of 2024, ranking third among private healthcare providers listed on the Stock Exchange of Thailand (SET), with a market share of about 5%.

BCH is the hospital chain servicing the largest number of patients covered by social security benefits in Thailand. As of June 2024, the company had 1.02 million registered social security persons, representing 8% of total social security population. BCH generates around one-third of revenue from the SC segment. In our view, the substantial patient base helps the company leverage economies of scale and optimize facility utilization.

In the cash patient segment, the company mainly focuses on the medium-income segment, while also expanding its reach into the premium market to attract international patients. The company aims to further expand its revenue base by focusing on the treatment of specific diseases and more complex medical care, as well as proactive medical services.

New medical services broaden revenue base

The company is strategically expanding its service offerings to broaden its patient base and help diversify revenue streams. This includes proactive promotion and prevention (P&P) healthcare services, as well as a wider range of specialized medical treatments with advanced technology, such as cancer radiation therapy, cosmetic surgery, and other targeted clinics. This approach is expected to attract a broader patient base and support revenue growth.

The company recently opened Kasemrad Ari Radiation Oncology Clinic, its first specialized cancer facility equipped with advanced radiotherapy technology. Initially serving social security patients from its network of hospitals, BCH aims to expand services to referred patients and those under SC in the nearby areas. The clinic currently handles 35-40 cases daily and can flexibly extend its operating hours to accommodate increased demand.

In addition, the company has launched mobile dental services in key provinces like Bangkok, Nonthaburi, Nakhon Ratchasima, and Rayong, increasing accessibility for the insured patient group and other patients in both the private and public sectors. This program aims to bring quality dental care directly to patients and enhances convenience, with plans to expand its reach to additional areas in the future.

Exposure to regulatory risks

As a private hospital participating in Thailand's public healthcare system, BCH is exposed to regulatory risks, including adjustments to reimbursement rates, changes in service conditions, variations in coverage policies for specific diseases and treatments, treatment procedures, and the government's fiscal status. Common issues encountered are reimbursement and rate reductions, especially for high-cost treatments and particularly during periods of budget constraints. For instance, for the last two months of 2023, the social security budget for high-cost care became insufficient, leading to a rate reduction for complex treatments from THB12,000 to THB7,200 per adjusted relative weight (RW). This adjustment resulted in a roughly THB80 million reductions in BCH's high-cost care revenue recognized in the second quarter of 2024. To address these challenges, BCH and other private hospitals in the SC scheme are actively in discussions with the Social Security Office (SSO) to secure a guaranteed rate or increase budget allocations.

Moderate revenue growth expected over the forecast period

We anticipate mid-single-digit revenue growth from 2024 to 2026, driven by an increase in Thai patient numbers, growth in SC registered persons, and the expansion of new medical services, including proactive healthcare and specialized treatments. In addition, the improving performance of recently opened hospitals, such as Kasemrad International Hospital (KIH) Aranyaprathet and Vientiane, as well as Kasemrad Hospital (KH) Prachinburi, is expected to further boost revenue.

However, certain factors may temper revenue growth in 2024 such as reduced high-margin Kuwaiti patient revenue, particularly in specialized treatments like diabetic foot care, due to changes in Kuwait's welfare system, as well as a decline in high-cost care social security revenue. Although international patient revenue from neighboring countries, other Middle Eastern nations, and an emerging market like Libya is rising, it has not fully offset the decline from Kuwait. BCH is closely monitoring the situation and awaiting clarification on this revised list of qualified hospitals in Thailand. Our base-case forecasts do not include a significant return of Kuwaiti patients in the assumptions. However, a potential inclusion on the list of qualified hospitals could positively impact revenue and earnings.

We forecast the company's EBITDA to range from THB3.0-THB3.5 billion annually over the forecast period. We project EBITDA margin of around 24% in 2024, with further improvement in the following two years. Profitability in 2024, is likely to be pressured by rising costs, including drug expenses, medical personnel expenses, and doctors' fees, as well as a decline in high-margin Kuwaiti patient revenue. However, the company has launched several strategic initiatives, such as restructuring the capital structure of KIH Vientiane to mitigate the impact of foreign exchange losses, leading to a reduction in selling general and administrative (SG&A) expenses.

Looking ahead, we expect improving earnings from the ramp-up new hospitals, the completion of existing facility renovations to increase capacity and accommodate more patient volume, and the expansion of advanced and specialized service offerings. A continued focus on operating efficiency should further enhance profitability and margins.

Strong balance sheet

We expect BCH's financial position to remain strong, with a solid balance sheet and ample liquidity over the next three years. As of June 2024, its total reported debt was THB1.4 billion, down from THB1.6 billion in 2023, and THB3.9 billion in 2022. BCH has been paying down its maturing debentures and scheduled bank loans. As a result, the company achieved a net cash position in 2023 and a near-net cash position in the first half of 2024, leading to remarkably low net debt-to-EBITDA and net debt-to-capitalization ratios.

We anticipate BCH's capital expenditures to range from THB1.0-THB1.6 billion annually over the next three years, primarily for the maintenance of facilities and new project developments. Currently, two new green-field hospital projects are in the pipeline: the 268-bed KH Suvarnabhumi, and the 200-bed KH Rayong, with a combined investment for construction and equipment of about THB2.6 billion. Based on our projections, the company's cash flow should be sufficient to cover a significant proportion of these investments, with a little need for additional financing. Without any large debt-funded acquisitions or investments, we expect BCH's debt-to-EBITDA ratio to remain very low during the forecast period.

Ample liquidity

We assess BCH to have ample liquidity with sufficient funds to meet its obligations during the next 12 months. As of June 2024, BCH's sources of funds comprised cash and cash equivalents of about THB1.6 billion, with an undrawn short-term bank facility of THB3.7 billion. Funds from operations (FFO) are forecast to be about THB2.5 billion in 2024. Uses of funds include capital expenditures and scheduled debt repayment over the next 12 months, comprising about THB1 billion of short-term debts and THB125 million of long-term debt repayments. Total capital expenditures, including maintenance, are forecast to be around THB1.6 billion in 2024.

Debt structure

As of June 2024, BCH's total consolidated debt was about THB1.4 billion. The company's priority debt consisted of around THB0.38 billion in debts owed by its subsidiary. The priority debt to total debt ratio was about 28% at the end of June 2024.

BASE-CASE ASSUMPTIONS

- Revenues to be around THB12.2 billion in 2024, with an annual growth of 4%-5% for 2025-2026.
- EBITDA margin to be 24%-25% during the forecast period.
- Total capital spending of about THB4 billion during the next three years.

RATING OUTLOOK

The "stable" outlook is based on our expectation that BCH will retain its strong market position in the cash patient and SC patient segments and continue to maintain a strong financial profile.

RATING SENSITIVITIES

The rating and/or outlook could be revised downward if BCH's operating performance and financial status are significantly weaker than expected. The rating and/or outlook could also be revised downward if any debt-funded acquisitions and/or investments substantially weaken the company's financial position. Conversely, a rating upside could materialize if BCH improved its cash flow substantially on a sustained basis, while maintaining a strong balance sheet.

COMPANY OVERVIEW

BCH was established in 1993 and listed on the SET in 2004. At the end of August 2024, BCH's major shareholder was the Harnphanich Family, holding approximately 50% of the outstanding shares. BCH owns and operates 16 hospitals and two clinics. BCH's total licensed beds as of August 2024 was 2,313 beds. The company has four major hospital brands: World Medical Hospital (WMC), Kasemrad International Hospital (KIH), Kasemrad Hospital (KH), and Karunvej Hospital (KV). Each brand targets different patient segments. WMC aims to service high-income self-pay and international patients, KIH provides service to upper middle-income self-pay patients, KH targets middle-income self-pay patients and SC patients, and KV focuses on patients enrolled in the SC scheme. In 2021, BCH opened its first hospital in overseas, the 110-bed KIH-Vientiane, in the Lao People's Democratic Republic (Lao PDR).

The revenue contributions of the cash patient segment and SC group in the first half of 2024 constituted around 66% and 34% of BCH's revenue, respectively. Revenues from the outpatient department (OPD) contributed about 56% of patient revenue in the cash segment with the remainder from the inpatient department (IPD).

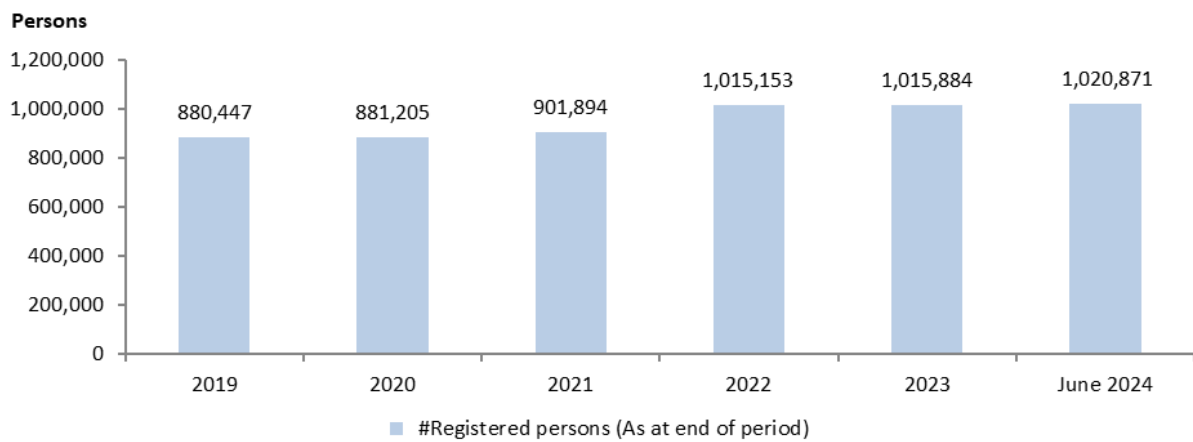
KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Services (%)

Services	2019	2020	2021	2022	2023	Jan-Jun 2024
	%	%	%	%	%	%
Cash patients	65	64	85	66	67	66
SC patients	35	36	15	34	33	34
Total	100	100	100	100	100	100
Total healthcare service revenue (Bil. THB)	8.88	8.93	21.40	18.90	11.73	5.70

Source: BCH

Chart 1: BCH Patients Enrolled in SC Scheme



Source: BCH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	5,745	11,830	18,910	21,529	9,014
Earnings before interest and taxes (EBIT)	834	1,984	4,206	9,510	1,842
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,330	2,948	5,178	10,402	2,642
Funds from operations (FFO)	1,147	2,493	4,021	8,378	2,175
Adjusted interest expense	26	100	160	156	137
Capital expenditures	968	1,023	1,450	762	2,701
Total assets	17,484	17,731	19,796	26,384	16,527
Adjusted debt	20	0	1,423	2,143	6,526
Adjusted equity	13,705	13,704	13,510	14,306	7,626
Adjusted Ratios					
EBITDA margin (%)	23.1	24.9	27.4	48.3	29.3
Pretax return on permanent capital (%)	13.2 **	12.0	21.5	51.9	13.3
EBITDA interest coverage (times)	51.6	29.4	32.3	66.7	19.3
Debt to EBITDA (times)	0.0 **	0.0	0.3	0.2	2.5
FFO to debt (%)	13,198.0 **	n.m.	282.6	391.0	33.3
Debt to capitalization (%)	0.1	0.0	9.5	13.0	46.1

* Consolidated financial statements

** Annualized with trailing 12 months

n.m. Not meaningful

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Bangkok Chain Hospital PLC (BCH)

Company Rating:	A
Rating Outlook:	Stable

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