

BANGKOK CHAIN HOSPITAL PLC

No. 180/2018

12 November 2018

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date :		
Date	Rating	Outlook/Alert
08/11/17	A-	Stable

Company Rating History:		
Date	Rating	Outlook/Alert
17/09/09	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Bangkok Chain Hospital PLC (BCH) and the ratings on BCH's senior unsecured debentures at "A-", with a "stable" outlook. The ratings reflect the company's satisfactory financial performance and strong positions in the two key segments: middle-income self-pay patients, and patients who are covered by government social security program. However, these strengths are partially offset by an ongoing expansion that has pushed leverage higher, an exposure to regulatory risk, and intense competition in the healthcare service industry.

KEY RATING CONSIDERATIONS

Strong positions in two key segments

TRIS Rating expects BCH will be able to maintain its strong competitive position as one of the leading private hospitals. BCH has solid market positions in the two segments: middle-income self-pay patients, and patients who enrolled in the social security coverage (SC) scheme.

BCH upgraded several hospitals to receive more patients in the cash segment. Revenues from this segment have, therefore, improved steadily over the last five years, rising to Bt4,476 million in 2017 from Bt3,136 million in 2013.

BCH has held about 10%-11% market share in Bangkok during the past five years, in terms of the number of the persons registered for the SC scheme. The sizable base of registered participants yields economies of scale and helps sustain the utilization levels of BCH's capital-intensive facilities. During the first six months of 2018, the average number of SC registered patients dropped slightly to 777,308 heads, a 1% year-on-year (y-o-y) drop. The drop was due to a change in the procedure used to allocate the quota of the registered patients to the hospitals. However, the company expects to capture around 50,000 more SC patients in 2019.

Satisfactory financial performance

BCH's competitive edge reflects its effective cost control efforts. BCH has a proven record of operational efficiency under the managed care system. The operating margin (operating income before depreciation and amortization as a percentage of sales) has ranged between 25%-28% during the last five years, slightly higher than the average of 23%-24% of the 21 Stock Exchange of Thailand (SET)-listed healthcare service providers. BCH earned a higher operating margin due to efficient control of costs and improving performance of the World Medical Hospital (WMC), a hospital aiming to service high income self-pay and international patients. WMC recorded a net loss of Bt121 million in 2017, compared with a net loss of Bt172 million in 2016. WMC's earnings before interest, tax, depreciation and amortization (EBITDA) turned positive in 2017. As a result, BCH's net profit margin rose to 12.6% in 2017 from 11.5% in 2016.

Our forecast assumes BCH's operating margin will hold at 25%-27% during 2018-2021. A continued focus on cost control will keep BCH's profitability in the longer term.

Financial leverage rises

Total debt to capitalization ratio will remain moderately high as BCH continues to expand. The ratio is forecast to fall in the range of 34%-44% during 2018-2021.

Capital expenditures is projected to total Bt6,000 million during 2018-2021. The investment budget includes Bt3,800 million for greenfield hospital projects during 2018-2021, and total maintenance capital expenditures of Bt1,600 million during the same period.

Five projects are in the pipeline: a 139-bed Kasemrad Hospital Ramkhamhaeng, which is opened in October 2018, a 30-bed Kasemrad Hospital Chiang-Khong, a 254-bed Kasemrad International Hospital (Vientiane), a 116-bed Kasemrad Hospital in Prachinburi province, and a 115-bed Kasemrad Hospital in Sa Kaeo province. The investment costs are Bt992 million, Bt60 million, Bt1,330 million, Bt712 million and Bt706 million, respectively.

Cash flow protection, as measured by the ratio of funds from operations (FFO) to total debt, may decline slightly while BCH is expanding. However, TRIS Rating expects the cash flow protection will remain strong. The FFO to total debt ratio will range between 33%-48% during 2018 through 2021. The EBITDA interest coverage ratio should range between 15-19 times during 2018-2021.

Exposed to regulatory risk

As a private hospital participating in the managed care or SC scheme, BCH faces the regulatory risks that come along with the public healthcare system. Healthcare regulations in Thailand are not fully developed. There is a certain degree of overlap among the three major public healthcare schemes. As a result, there is a good chance that a reform in one scheme could create a ripple effect and cause a reaction in the other schemes.

Hospitals participating in the public healthcare system are susceptible to regulatory risks, such as changes in reimbursement rates and conditions for the provision of services, expansion of coverage for some diseases, a procedural treatments, and the fiscal status of the government, to name a few. On the other hand, the hospital operators may reap benefits should the regulatory developments turn in their favor. TRIS Rating believes that BCH's management team is adept and can handle any future regulatory challenges so as to maintain its competitive position.

Intense competition despite growing demand

Thailand is becoming an aged society. More people are living longer as they are more health-conscious. As of December 2017, those over the age of 60 accounted for about 15.5% of the total Thai population. The National Economic and Social Development Board (NESDB) estimated that the number of people aged 60 years or higher will increase to 18% in 2020 and 25% in 2030. TRIS Rating expects that demand for healthcare in Thailand will increase as Thailand's population ages.

The number of foreign patients receiving care in the Thai healthcare service industry is also expected to increase, tracking the rise in the number of foreign tourist arrivals. Although the above factors mean bright prospects for the healthcare service industry, the competition in this industry is intense. Private hospitals have to compete with other hospitals in Thailand and with hospitals in other Asian countries, particularly in the area of advanced medical treatment. However, Thailand remains a hub for medical tourism in Asia. Thailand has advantages like location, quality of services, and lower prices compared with other countries like Singapore and Malaysia.

Adequate liquidity

BCH's liquidity is adequate. Sources of funds should be sufficient to cover uses of funds over the next 12-24 months. At the end of June 2018, cash on hand and short-term investments were Bt725 million. FFO is forecast at around Bt1,700-Bt2,000 million per year during 2018-2021. Use of funds over the next 24 months include scheduled debt repayments and short-term debts due of only Bt1,084 million. Capital expenditures, including maintenance capital expenditures, are forecast at around Bt1,000-Bt2,000 million per annum. Dividend payments are forecast at Bt400-Bt500 million per annum.

RATING OUTLOOK

The "stable" outlook is based on our expectation that BCH will maintain its strong market position in the middle-income self-pay patient and SC patient segments. WMC's operating results should continue to improve. BCH would continue to employ prudent financial policies for any new debt-funded investments. TRIS Rating's base case forecast assumes BCH's revenues will stay at around Bt7,500-Bt9,500 million per annum over the next three years. The FFO to total debt ratio should range from 33% to 48%. Despite the ongoing expansion plan, the debt to capitalization ratio should not exceed 50% in order to maintain the ratings at the current levels.

RATING SENSITIVITIES

BCH's ratings could be upgraded should the revenue base rise to around Bt12,000-Bt15,000 million per annum and the financial profile hold at current levels. In contrast, the rating downside case may occur if cash flow protection drops significantly from the current level, due to aggressive debt funded investments or a drop in operating results.

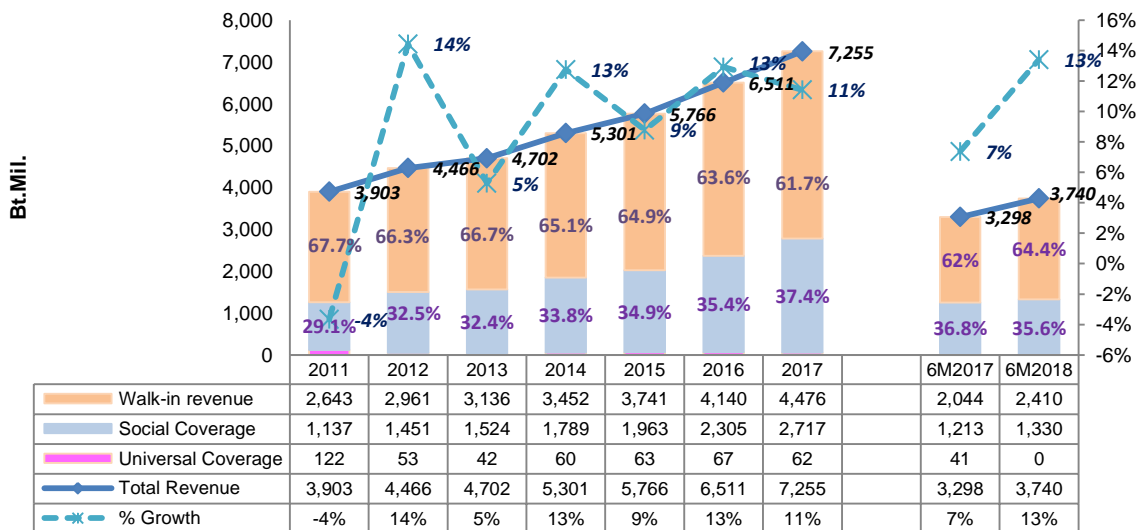
COMPANY OVERVIEW

BCH was established in 1993 and listed on the SET in 2004. As of August 2018, BCH's major shareholder was the Harnphanich family, holding approximately 50% of the outstanding shares. BCH owns and operates 12 hospitals and one polyclinic. BCH has four major hospital brands: World Medical Hospital (WMC), Kasemrad International Hospital (KIH), Kasemrad Hospital (KH), and Karunvej Hospital (KV). Each brand targets a different patient segment. For example, 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.

The revenue contributions of the self-pay and SC groups were approximately 65% and 35%, respectively. In 2017, BCH invested Bt391 million in Bangkok Chain International (Lao) Company (BCI), which operates a 254-bed private hospital: Kasemrad International Hospital (Vientiane). The total investment for this project is around Bt1,330 million. The construction period will be around three years. The company is building two more 100-bed hospitals, Kasemrad Sa Kaeo Hospital and Kasemrad Prachinburi Hospital. The cost for each hospital is around Bt700 million and each will take around two years to construct.

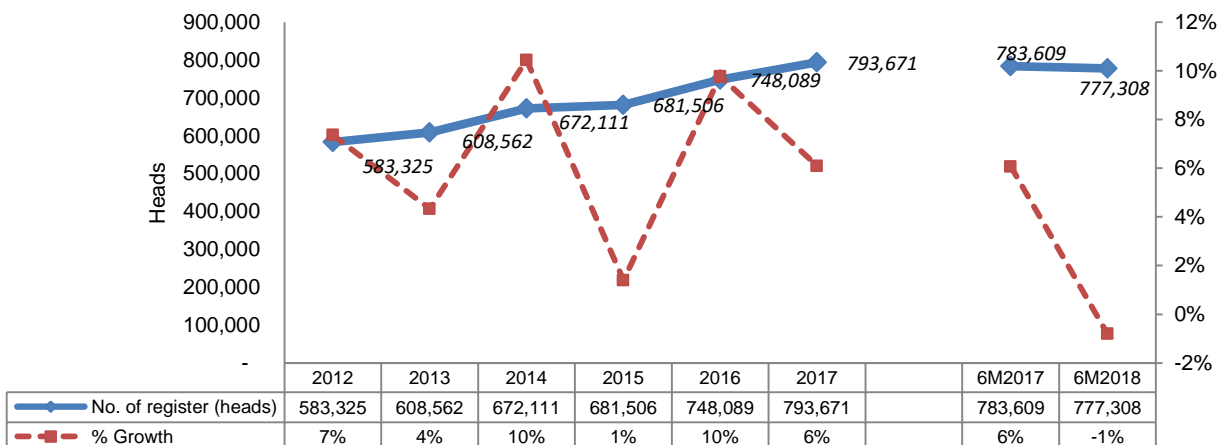
KEY OPERATING PERFORMANCE

Chart 1: Revenue Breakdown by Services



Source: BCH

Chart 2: BCH Patients Enrolled in SC Scheme



Source: BCH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	Jan-Jun 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	3,787	7,353	6,598	5,842	5,368
Operating income	1,010	2,076	1,825	1,472	1,423
Earnings before interest and taxes (EBIT)	724	1,535	1,312	1,017	994
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,013	2,084	1,837	1,482	1,436
Funds from operations (FFO)	830	1,668	1,458	1,138	1,113
Adjusted interest expense	67	146	171	169	164
Capital expenditures	518	1,120	734	600	726
Total assets	11,875	12,674	10,569	10,598	9,992
Adjusted debt	4,067	4,056	3,632	3,953	3,694
Adjusted equity	6,070	5,912	5,337	4,922	4,667
Adjusted Ratios					
Operating income as % of total operating revenues (%)	26.68	28.23	27.65	25.19	26.50
Pretax return on permanent capital (%)	16.02 **	14.45	13.62	10.91	11.13
EBITDA interest coverage (times)	15.05	14.30	10.75	8.74	8.77
Debt to EBITDA (times)	1.81 **	1.95	1.98	2.67	2.57
FFO to debt (%)	44.54 **	41.11	40.14	28.79	30.14
Debt to capitalization (%)	40.12	40.69	40.49	44.54	44.18

Note: All ratios have been adjusted by operating leases.

** Consolidated financial statements*

*** Annualized with trailing 12 months*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Bangkok Chain Hospital PLC (BCH)

Company Rating:	A-
Issue Ratings:	
BCH211A: Bt1,500 million senior unsecured debentures due within 2021	A-
BCH22DA: Bt1,000 million senior unsecured debentures due within 2022	A-
Rating Outlook:	Stable

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