BANGKOK CHAIN HOSPITAL PLC

No. 145/2017 8 November 2017

Company Rating: A-

Issue Ratings:
Senior unsecured A-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
17/09/09	A-	Stable

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Rating Rationale

TRIS Rating affirms the company rating and the outstanding senior unsecured debentures of Bangkok Chain Hospital PLC (BCH) at “A-”. At the same time, TRIS Rating assigns a rating of “A-” to the proposed issue of up to Bt1,000 million senior unsecured debentures. The proceeds from the new debentures will be used to repay existing debt. The ratings reflect the company’s strong position in the middle-income cash patient and social security patient segments of the healthcare service industry as well as its diverse sources of revenue. These strengths are partially offset by a rise in leverage as BCH can ramp up slower than expectation for the operating performance of World Medical Hospital (WMC) and face an intense competition in the healthcare service industry. In addition, BCH is exposed to regulatory risk and the execution risks inherent in its expansion plans.

BCH was established in 1993 and listed on the Stock Exchange of Thailand (SET) in 2004. As of May 2017, BCH’s major shareholder was the Harnpanich family, holding approximately 50% of the company’s total shares. Currently, BCH owns and operates 11 hospitals and two polyclinics. One hospital is operated under the WMC brand, one hospital under the Kasemrad International Hospital (KIH), five hospitals under the name Kasemrad Hospital (KH), and four hospitals under the Karunvej Hospital (KV). Each hospital targets a different segment: WMC aims to service high-income cash and international patients, KIH provides service to upper mid-tier cash patients, KH targets middle-income cash and social security patients, and KV focuses on patients enrolled in the social security coverage (SC) scheme. Currently, 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 250-bed private hospital: Kasemrad International Hospital (Vientiane). However, this investment cost is minimal compared to BCH’s size in terms of asset.

BCH is one of the leading private hospitals participating in the SC scheme. Its market share of SC patients in Bangkok, in terms of the number of persons registered, was 10%-11% over the past five years. During the first six months of 2017, BCH’s market share of SC patients in Bangkok remained strong at 11%. The sizable base of registered SC participants gives economies of scale and helps maintain a high level of utilization of its capital-intensive facilities.

BCH reported a 13% year-on-year (y-o-y) rise in revenue to Bt6,511 million in 2016. The rise was driven by both the increased patient volume and price. BCH’s operating margin (operating income before depreciation and amortization as a percentage of sales) rose to 26.6% in 2016 from 24.2% in 2015. The improving operating margin was mainly due to efficient cost control, lower doubtful debt expense from the Social Security Fund, and improving performance of WMC. As a result, BCH’s net profit margin rose from 9.1% in 2015 to 11.6% in 2016. However, WMC recorded a net loss of Bt172 million in 2016, compared to a net loss of Bt233 million in 2015. BCH’s management team expects that WMC would break even at the level of earnings before interest, tax, depreciation and amortization (EBITDA) in 2017 and turn profitable in 2018.

During the first six months of 2017, revenue rose to Bt3,298 million, a 7% y-o-y rise. BCH’s operating margin declined to 24.1% during the first six months of

2017, compared with 25.7% over the same period of the prior year. This softening operating margin was mainly caused by a rise in doubtful debt expense from the Social Security Fund. WMC reported a net loss of Bt77 million for the first six months of 2017. In TRIS Rating's baseline scenario, BCH's operating margin is forecast to be around 27% per annum during the next three years.

BCH's total debt level has risen considerably during the past five years as it expanded. Total debt rose from Bt2,108 million in 2012 to Bt4,615 million at the end of June 2017. As a result, the debt to capitalization ratio increased from 34.3% at the end of 2012 to 45.8% at the end of June 2017. In 2017-2020, BCH plans capital expenditures of Bt500-Bt2,000 million annually. Thus, its financial leverage will be around 38%-44%. BCH's liquidity is relatively strong. The ratio of funds from operations (FFO) to total debt is expected to stay above 30% during 2017-2020. In the first six months of 2017, BCH's EBITDA interest coverage ratio was 11.58 times, while the FFO to total debt ratio was 32.88% (annualized, based on the trailing 12 months). Cash on hand at the end of June 2017 was Bt457 million. FFO is forecast at Bt1,600-Bt2,000 million per annum. BCH has the total debts of Bt1,000 million coming due over the next 12 months.

Rating Outlook

The "stable" outlook is based on the expectation that BCH will maintain its strong market position in the middle-income and SC segments, and WMC's operating results will improve gradually. At the same time, the company is expected to employ cautious financial policies for any new debt-funded investment projects. In order to maintain the credit quality level, the debt to capitalization ratio should not exceed 50%.

BCH's credit ratings could be upgraded should financial leverage improve significantly on sustainable basis. In contrast, the rating downside case may occur if BCH has any aggressive debt-funded investments and weak persistent cash flow protection.

Bangkok Chain Hospital PLC (BCH)

Company Rating:	A-
Issue Ratings:	
BCH181A: Bt1,000 million senior unsecured debentures due within 2018	A-
BCH211A: Bt1,500 million senior unsecured debentures due within 2021	A-
Up to Bt1,000 million senior unsecured debentures due within 5 years	A-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Jun 2017	------------------------- Year Ended 31 December ----------------------- 2016	2015	2014	2013	2012
Sales and service revenues	3,298	6,511	5,766	5,301	4,702	4,466
Gross interest expense	67	162	163	160	122	63
Net income from operations	337	753	527	522	585	910
Funds from operations (FFO)	693	1,455	1,239	1,146	1,060	1,233
Capital expenditures	640	693	561	684	2,099	1,124
Total assets	11,099	10,569	10,598	9,992	10,024	7,118
Total debts	4,615	4,171	4,650	4,222	4,266	2,108
Total liabilities	5,645	5,233	5,676	5,325	5,485	3,054
Shareholders' equities	5,454	5,337	4,922	4,667	4,539	4,064
Depreciation & amortization	263	514	461	433	345	238
Dividends	337	504	440	448	419	580
Operating income before depreciation and amortization as % of sales	24.11	26.60	24.17	25.54	27.00	34.47
Pretax return on permanent capital (%)	13.09 **	13.74	11.05	11.38	13.62	24.79
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	11.58	10.84	8.82	8.82	10.91	24.10
FFO/total debt (%)	32.88 **	34.88	26.64	27.13	24.85	58.49
Total debt/capitalization (%)	45.83	43.87	48.66	48.01	49.40	34.29

* *Consolidated financial statements*
** *Annualized, based on trailing 12 months*
Note: All are operating leased adjusted ratios

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