TRIS RATING
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BANGKOK CHAIN HOSPITAL PLC

No. 187/2019
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CORPORATES

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

Last Review Date: 05/06/19

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-". At the same time, TRIS Rating revises upward the rating outlook of BCH to "positive" from "stable". The "positive" outlook reflects the expectation that BCH's operating performance will continue to improve, generating sizable revenue base of around Bt10-Bt11 billion per annum, while maintaining strong financial profile.

The ratings continue to reflect the company's strong position in two key segments: middle-income cash patients, and patients who are covered by the government social security coverage (SC) scheme, high profitability, and relatively low leverage. However, these strengths are partially offset by an exposure to regulatory risk and the intense competition from local and international healthcare service providers.

KEY RATING CONSIDERATIONS

Growing revenues in both the cash and SC segments

TRIS Rating's base-case forecast assumes BCH's revenues will grow around 7%-9% annually during 2019-2022. Revenues are forecast to range between Bt9-Bt11 billion per annum. The growth in revenues will be driven by revenues from both the cash segment and under the SC scheme. Revenues from the cash patient segment account around 65%-66% of total patient revenues, while revenues from the SC segment stay at around 34%-35%. The expansion of its hospital network and more complex healthcare services help expand the company's customer base and enhance its competitiveness in the healthcare services industry.

Revenues from the cash patient segment grew at a compound annual growth rate (CAGR) of 11% over the past five years, from around Bt3.14 billion in 2013 to Bt5.21 billion in 2018. Revenues for the first six months of 2019 rose further by 15% year-on-year (y-o-y), to Bt2.78 billion. The increasing revenues were also driven by the improved performance of the "World Medical Hospital" (WMC), which focuses on the high-income cash patients and international patients. WMC posted very strong revenue growth in 2018 with revenue of Bt1.10 billion, up nearly 100% from Bt0.57 billion in 2017. Its growth in revenues was driven mainly by the increasing number for international patients in the "Diabetic Foot Center". In addition, the company plans to launch the "In Vitro Fertilization (IVF) Center" at WMC by the end of 2019 to tap new customer markets.

Revenues from the SC segment are expected to grow by the increasing number of insured persons and growth in revenue per insured person. As of June 2019, the number of insured person registered with BCH was 865,592, up from 804,150 at the end of 2018, accounting for 5.3% of total persons registered under the SC scheme. Revenue per insured person is expected to increase as the Social Security Office (SSO) usually adjusts the revenue per capita every two years. The sizable base of registered persons yields economies of scale and helps sustain the utilization levels of BCH's capital-intensive facilities.

High profitability

TRIS Rating expects BCH's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to hold at about 25%-26% during 2019-2022, reflecting the operating costs and expenses for new hospital projects in 2020 and 2021. BCH's EBITDA margin has been in the 25%-28% range over the last five years, higher than the average of 20% for the Stock Exchange of Thailand (SET)-listed healthcare service providers. BCH's high profit margins were supported by the higher contribution from its cash patient segment and its cost efficiency.

BCH's EBITDA margin during the first six months of 2019 dropped to 25.5% from 27.7% in 2018, owing to higher fixed operating costs and large depreciation and amortization charges from the newly opened "Kasemrad Hospital Ramkhamhaeng" (KH-RAM). However, TRIS Rating expects that BCH's EBITDA margin should stay above 25% as we expect WMC's profitability will continue to improve. WMC's EBITDA has turned positive since 2017 and its net profit turned positive in 2018. WMC's EBITDA increased significantly to Bt287 million in 2018 and Bt119 million in the first six months of 2019, from Bt49 million in 2017. In addition, the newly opened KH-RAM posted strong growth of 84% y-o-y in the first six months of 2019. KH-RAM's EBITDA is expected to turn positive in the second half of 2019. A continued focus on cost control and improving profitability of the newly added hospitals are expected to smooth out BCH's overall profitability in the medium term.

Relatively low financial leverage

TRIS Rating expects BCH's financial leverage to remain low. BCH's planned capital expenditures are estimated at about Bt6.0 billion in aggregate in the 2019-2022 period. The investment budget includes Bt2.9 billion for greenfield hospital projects during 2019-2022 and maintenance capital expenditures of around Bt0.4-Bt1.0 billion per annum. Three new hospital projects in the pipeline are: the 90-bed Kasemrad Hospital Aranyaprathet in Sa Kaeo Province, the 254-bed Kasemrad International Hospital Vientiane in the Lao People's Democratic Republic, and the 115-bed Kasemrad Hospital in Prachinburi Province.

In TRIS Rating's base-case forecast, BCH's total debt is forecast to range between Bt5.6-Bt6.3 billion during 2019-2022. Its EBITDA is forecast to range between Bt2.3-Bt2.8 billion. As EBITDA is expected to grow overtime, BCH's net debt to EBITDA ratio is forecast to stay at around 2 times during the next three years. The ratio of funds from operations (FFO) to total debt is expected to range between 35%-44% during 2019 through 2022. The EBITDA interest coverage ratio should stay in the range of 12-15 times during the same period.

Intense competition and exposure to regulatory risk

TRIS Rating expects that a slowdown in the domestic economy may impact local patient volumes while more new entrants to the private healthcare segment over the next three years may further intensify competition. Private hospitals targeting international patients will have to compete with not only the Thai private hospitals but also hospitals in other countries, particularly Malaysia and Singapore. However, we believe that Thailand's competitive strengths over other Southeast Asian countries will remain, supported by the Thai government's strategy to promote the country as a destination for health and wellness tourism.

Private hospitals participating in the managed care or SC scheme will face the regulatory risks that come with the public healthcare system such as changes in reimbursement rates and conditions for the provision of services, expansion of coverage for certain diseases, procedural treatment, and the fiscal status of the government. TRIS Rating believes that BCH's management team is adept and can handle any future regulatory challenges so as to maintain its competitive position.

No significant impact from drug price control

On 22 January 2019, the Cabinet approved the Commerce Ministry's proposal to put medicine on the state price control list. All private hospitals must submit prices and costs to the Department of Internal Trade (DIT). Prices must be shown on hospital websites or via quick response (QR) codes. Besides, private hospitals have to inform the DIT before adjusting medical prices. Those who fail to comply with the rule will face penalties according to the 1999 Prices of Goods and Services Act. In addition, private hospitals have to provide lists of medicines to patients who wish to buy medicines outside the hospital. BCH holds the view that these two measures will not significantly impact its revenues from medicines as most patients are continuing to purchase their medical supplies from the hospital. The company believes that its higher prices reflect better storage conditions for medicines when compared with general drugstores. In addition, the company is able to track and recall medicines should there be any issues.

Adequate liquidity

We assess BCH's liquidity to be adequate for the next 12-24 months. At the end of June 2019, BCH's sources of funds comprised cash and cash equivalents of Bt0.66 billion. FFO is forecast at around Bt1.9-Bt2.2 billion per annum during 2019-2022. Funds will be used for scheduled debt repayments and planned capital expenditures. BCH's planned capital expenditures will be around Bt1.8-Bt2.0 billion per annum during 2019-2020 and Bt0.3 billion per annum during 2021-

2022. About Bt0.37 billion in short-term and long-term loans will come due in 2020, while about Bt1.79 billion in long-term debts and debentures will come due in 2021. Dividend payments are forecast to be around Bt0.60-Bt0.63 billion per annum over the next three years.

The company has to keep its liability to equity ratio below 2 times in order to comply with its financial ratio covenant on its bonds and bank loans. At the end of June 2019, the ratio was only 1 times. Based on BCH's strong financial profile, TRIS Rating believes that the company should have no problem complying with its financial covenant.

BASE-CASE ASSUMPTIONS

- Revenues should grow at around 7%-9% per annum during 2019-2022.
- EBITDA margin is forecast to stay at about 25%-26% per annum during 2019-2022.
- Total capital spending of about Bt6 billion in aggregate during 2019-2022.

RATING OUTLOOK

The "positive" outlook reflects TRIS Rating's expectation that BCH's operating performance will improve further, generating sizable revenue base of around Bt10-Bt11 billion per annum and maintaining strong financial profile.

RATING SENSITIVITIES

BCH's ratings could be upgraded, should the company generate sizable revenue base, reaching around Bt10-Bt11 billion per annum, while maintaining the debt to EBITDA ratio at around 2 times. On the contrary, the rating outlook could be revised back to "stable" if the financial performance is weaker than expected.

COMPANY OVERVIEW

BCH was established in 1993 and listed on the SET in 2004. As of August 2019, 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: 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 in the first six months of 2019 were approximately 66% and 34% of total revenue, respectively. Revenues from the outpatient department (OPD) contributed about 53% of patient revenue in the cash segment; the remainder came from inpatients.

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Services

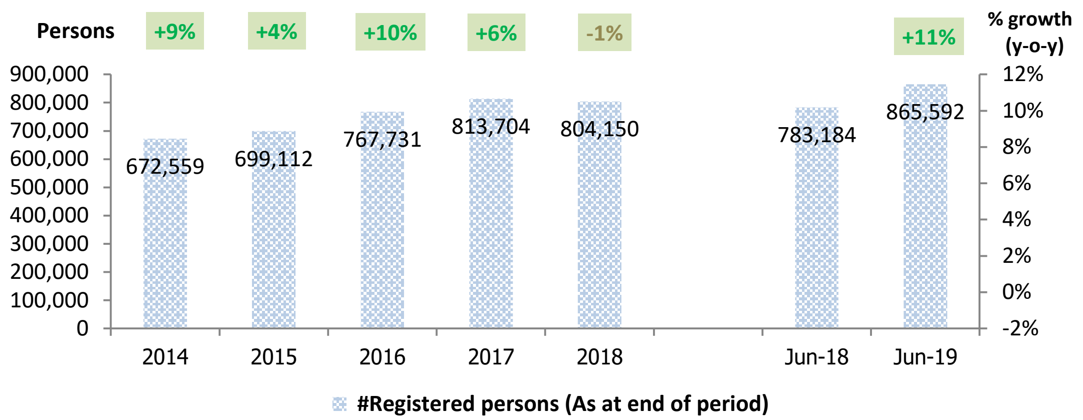
Services	2016		2017		2018		6M19	
	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%
Cash Segment	4,140	64	4,476	62	5,212	65	2,781	66
Social Security Coverage	2,305	35	2,717	37	2,861	35	1,434	34
Universal Coverage	66	1	62	1	0	0	0	0
Total	**6,511**	**100**	**7,255**	**100**	**8,073**	**100**	**4,215**	**100**

Source: BCH

Chart 1: Revenue by Patient Types (%)

Source: BCH

Chart 2: BCH Patients Enrolled in SC Scheme



Source: BCH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

		-------------Year Ended 31 December ----------			
	Jan-Jun 2019	2018	2017	2016	2015
Total operating revenues	4,270	8,177	7,353	6,598	5,842
Earnings before interest and taxes (EBIT)	756	1,670	1,535	1,312	1,017
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,087	2,264	2,084	1,837	1,482
Funds from operations (FFO)	893	1,842	1,668	1,458	1,138
Adjusted interest expense	70	137	146	171	169
Capital expenditures	661	1,259	1,120	734	600
Total assets	13,186	12,627	12,674	10,569	10,598
Adjusted debt	4,745	4,197	4,056	3,632	3,953
Adjusted equity	6,561	6,398	5,912	5,337	4,922
Adjusted Ratios					
EBITDA margin (%)	25.45	27.69	28.34	27.84	25.37
Pretax return on permanent capital (%)	14.96	14.55	14.45	13.62	10.91
EBITDA interest coverage (times)	15.54	16.54	14.30	10.75	8.74
Debt to EBITDA (times)	2.03	1.85	1.95	1.98	2.67
FFO to debt (%)	40.16	43.90	41.11	40.14	28.79
Debt to capitalization (%)	41.97	39.61	40.69	40.49	44.54

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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-
BCH226A: Bt1,200 million senior unsecured debentures due within 2022	A-
Rating Outlook:	Positive

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