

BANGKOK CHAIN HOSPITAL PLC

No. 207/2022
8 November 2022

CORPORATES

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

Last Review Date: 04/11/21

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) and the ratings on BCH's senior unsecured debentures) at "A", with a "stable" outlook. The ratings reflect the company's strong competitive position in the middle-income patients and patients covered by the government social security coverage (SC) scheme, its sound operating performance, and strong balance sheet. However, these strengths are partially offset by the competitive environment of the healthcare service industry and the challenges posed by rising commodity prices and surging inflation which could affect consumer spending.

KEY RATING CONSIDERATIONS

Exceptional performance during COVID-19 pandemic

BCH outperformed the market during the Coronavirus Disease 19 (COVID-19) fallout in 2021 and 2022. Its total revenue reached THB21.5 billion in 2021, up 140% from 2020. Revenue continued to rise by 90% year-on-year (y-o-y) to THB12.7 billion in the first half of 2022. This is compared with BCH's normal operating revenue of THB9 billion in 2019.

The combined revenues of private healthcare service providers listed on the Stock Exchange of Thailand (SET) exhibited strong growth during the previous two years, with a 35% increase in 2021 and an additional 50% y-o-y growth in the first half of 2022. The industry, particularly hospitals with a large Thai patient base, benefited from the increase in COVID-19 patients during the pandemic. However, the hospitals that mainly focus on international patients showed little growth in 2021 but recovered significantly in 2022 following the easing of Thailand's immigration and quarantine measures.

With its large Thai patient base, BCH had the capacity to accommodate the surge in COVID-19 patients. BCH has provided COVID-19-screening services and medical care since 2020. Its COVID-19 screening capacity reached a maximum of 16,000 specimens per day. The company also has added hospital facilities for COVID-19 care. During the flare-up in COVID-19 cases in Thailand i.e., in the second and third quarter of 2021, the number of screening tests for patients with symptoms at BCH's networks reached over 500,000 per quarter. In 2022, more than 450,000 tests were conducted in the first quarter of 2022. Patients who tested positive continued to be hospitalized. As a result, revenue from COVID-19 related services accounted for about half of total medical care revenues during 2021 through the first half of 2022.

Competitive strength in both cash and SC segments

BCH has maintained a strong competitive position in both cash patient and SC patient segments.

In 2021, revenue from cash patients grew significantly by 218% to THB18.1 billion, up from THB5.7 billion in 2020. The strong growth was driven by solid performance across its existing network of hospitals and its large healthcare capacity to cope with COVID-19 infections. Amid the protracted outbreak, BCH's revenues for the first six months of 2022 continued to rise, reaching THB8.6 billion, a 69% y-o-y increase.

BCH reported THB3.3 billion in revenues from the SC segment in 2021, a 2% increase from 2020. In the first half of 2022, revenues from the SC segment rose substantially to THB4 billion from THB1.5 billion in the same period of

2021. As of June 2022, the number of SC insured persons registered with BCH was 984,755, up by 9% from 901,894 at the end of 2021. The SC registrations in the BCH hospital network accounted for about 8% of all persons registered under the SC scheme in Thailand. The rise was attributed to the increased quota for registered persons in BCH's major hospitals such as Kasemrad hospital Bangkae, Prachacheun, and Rattanaibeth, a rising number of registered persons moving from other hospitals to BCH's hospital networks, and an increase in COVID-19 patients under SC coverages. The registered persons in BCH's hospital network are expected to reach over one million in 2022. The large base of registered persons yields economies of scale and helps sustain the utilization levels of the hospital network.

During 2018-2020, revenues from the cash patient segment accounted for around 65% of its total patient revenues, while revenues from the SC segment constituted around 35%.

Specialized treatments to drive post-pandemic growth

We expect specialized and complicated medical treatments to drive BCH's post-pandemic growth. BCH has continued to renovate its existing facilities and widened its capacity for specialized and complex medical treatments across its hospital network, aiming to accommodate increasing general patients and the recovery of international patients after the pandemic. BCH has a strong reputation in specialized treatments for coronary heart disease, with six heart treatment centers in BCH's hospital network. The company has also added other complicated medical service centers and regenerative medicine centers in its hospitals.

Following the relaxation of travel restrictions and quarantine requirements, the hospitals have catered for the pent-up demand among international patients seeking complex healthcare services. In the first half of 2022, BCH's World Medical Hospital (WMC), which focuses on high-income cash patients and international patients, recorded a 44% y-o-y revenue growth. Its international patient revenues increased by 21% y-o-y, reaching pre-COVID levels. WMC is well-known as the center for diabetic wounds treatment among Arabic patients. Revenues from Kuwait patients involving medical care for diabetic foot ulcers grew by 13% y-o-y. Also, WMC has gained more recognition among international patients and is able to tap new patient groups such as American expatriates.

In addition, we expect BCH's newly opened hospitals, i.e., in Sakaeo and Pachinburi provinces, Thailand, and Vientiane Lao PDR, will support the growing number of cash patients and SC registered persons. Recently, BCH purchased a building near Karunvej Hospital Pathum Thani and plans to renovate it, aiming to accommodate more patients from the cash segment in the future.

Solid earnings

Looking ahead, COVID-19 patients are likely to gradually decline as COVID-19 has become more of a common disease. However, we expect non-COVID Thai patient revenues to recover, together with a rising number of international patients. We expect BCH's operating revenues to reach about THB18.5 billion in 2022, and then revert to normal operating levels of THB10-THB11 billion per year during 2023-2024.

In 2021, BCH reported very strong earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB10.4 billion, up from THB2.6 billion in 2020. For the first half of 2022, its EBITDA doubled from the prior-year period, at THB4.8 billion. The EBITDA margin jumped to an exceptional high of 48.3% in 2021 and 37.6% during the first six months of 2022, compared with the normal EBITDA margin levels in the 26%-28% range during 2015-2019.

In 2022, we also expect earnings to be outstanding, following strong top-line performance. However, BCH's high earnings may be partially under pressure from large unsold COVID vaccine stocks of around 1.2 million doses. This may be set aside as vaccine impairment and could partly affect its profit margins in 2022.

Going forward, we anticipate that more specialized and complex disease treatments will help drive revenue intensity in the future. To alleviate the impact of higher operating expenses amid surging inflation, BCH has focused more on improving efficiency and cost-control efforts. We expect BCH's EBITDA margin to remain strong at about 27%-28% during the next three years.

Modest financial leverage

BCH has moderate financial leverage and sound financial position. As of June 2022, its interest-bearing debt was THB5.5 billion, down from about THB7 billion at the end of 2020. BCH has been paying down its maturing debentures and scheduled bank loans. The debt to capitalization ratio was about 21.5%, down from 40%-46% during 2018-2020. With its sound operations, the debt to EBITDA ratio declined to about 0.3 times, from 2.5 times at the end of 2020.

Over the next three years, we project BCH's total debt to gradually decline as the company has no large debt-funded expansion plans. We estimate BCH to spend about THB4.5 billion in aggregate for the next three years on capacity expansion and maintenance capital expenditures. We expect BCH to partly finance its capital expenditure from operating cash flows.

Without any large debt-funded investments, its debt to EBITDA ratio is forecast to be below 1 times during the next three years.

Ample liquidity

We assess BCH to have ample liquidity in the next 12-18 months. At the end of June 2022, BCH's sources of funds comprised cash and cash equivalents of about THB1.6 billion plus an undrawn bank facility of THB4.6 billion. Funds from operations (FFO) is forecast to be THB4 billion in 2022. Uses of funds include capital expenditures and maturing long-term loans and debentures of THB1.1 billion in the second half of 2022 and THB1.3 billion of maturing long-term loans and debentures in 2023.

BASE-CASE ASSUMPTIONS

- Revenues to reach THB18.5 billion in 2022, before returning to normal level of THB10-THB11 billion per annum during 2023-2024.
- EBITDA margin to be 27%-28% during the forecast period.
- Total capital spending of about THB4.5 billion during the next three years.

RATING OUTLOOK

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

RATING SENSITIVITIES

A credit downside case would materialize if BCH's financial profile and operating performance are significantly weaker than expected. In contrast, a rating upside would materialize if BCH could improve its cash flow substantially from the normal operating levels on a sustained basis, while maintaining a strong balance sheet.

COMPANY OVERVIEW

BCH was established in 1993 and listed on the SET in 2004. As of August 2022, BCH's major shareholder is the Harnphanich family, holding approximately 50% of the outstanding shares. BCH owns and operates 15 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. In 2021, BCH opened its first hospital in a foreign country, a 110-bed KIH-Vientiane, in the Lao PDR.

The revenue contributions of the self-pay and SC groups in the first six months of 2022 constituted approximately 68% and 32% of BCH's revenue, respectively. Revenues from the inpatient department (IPD) contributed about 61% of patient revenue in the cash segment; the remainder came from outpatient department (OPD).

KEY OPERATING PERFORMANCE

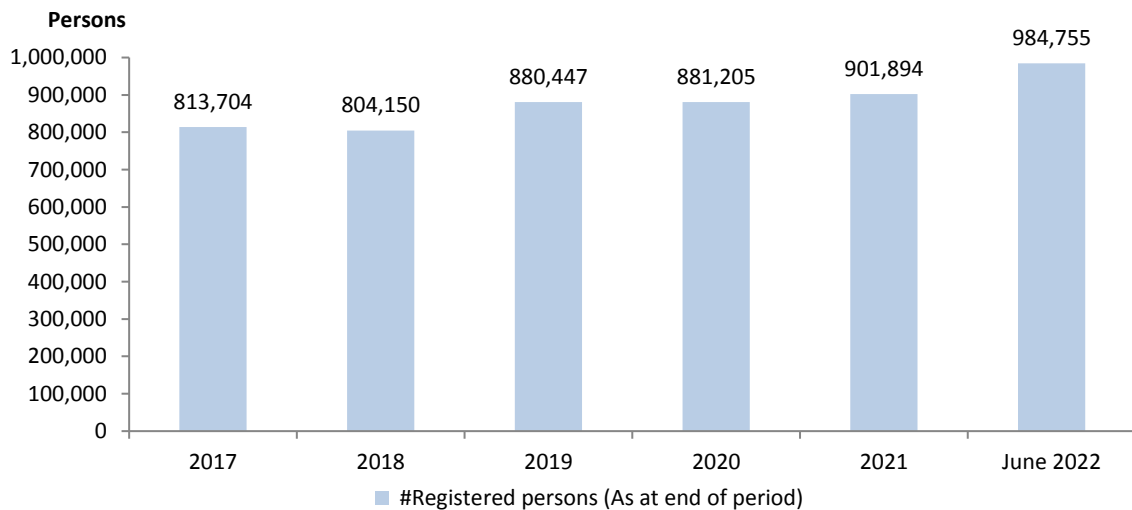
Table 1: Revenue Contribution by Services

Services	2019		2020		2021		Jan-Jun 2022	
	Bil. THB	%	Bil. THB	%	Bil. THB	%	Bil. THB	%
Cash segment								
General Cash patients	5.79	65	5.01	56	7.40	35	4.99	39
Covid patients under UCEP*			0.68	8	10.70	50	3.62	29
Total Cash segment	5.79	65	5.69	64	18.10	85	8.61	68
Social security coverage								
General SC patients	3.08	35	3.24	36	3.30	15	1.64	13
Covid related SC patients							2.37	19
Total Social security coverage	3.08	35	3.24	36	3.30	15	4.01	32
Total	8.88	100	8.93	100	21.40	100	12.61	100

*UCEP Universal Coverage for Emergency Patients

Source: BCH

Chart 1: BCH Patients Enrolled in SC Scheme



Source: BCH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	12,660	21,529	9,014	8,992	8,177
Earnings before interest and taxes (EBIT)	4,274	9,510	1,842	1,724	1,670
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,754	10,402	2,642	2,407	2,264
Funds from operations (FFO)	3,804	8,378	2,175	1,973	1,834
Adjusted interest expense	88	156	137	140	137
Capital expenditures	618	762	2,701	1,750	1,259
Total assets	24,842	26,384	16,527	14,116	12,627
Adjusted debt	4,026	2,143	6,526	4,828	4,197
Adjusted equity	14,743	14,306	7,626	6,978	6,398
Adjusted Ratios					
EBITDA margin (%)	37.55	48.32	29.31	26.77	27.69
Pretax return on permanent capital (%)	63.83 **	51.94	13.27	14.38	14.55
EBITDA interest coverage (times)	53.80	66.70	19.33	17.24	16.54
Debt to EBITDA (times)	0.32 **	0.21	2.47	2.01	1.85
FFO to debt (%)	251.42 **	391.03	33.32	40.87	43.69
Debt to capitalization (%)	21.45	13.03	46.11	40.89	39.61

* Consolidated financial statements

** Annualized with trailing 12 months

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
Issue Rating:	
BCH22DA: THB1,000 million senior unsecured debentures due within 2022	A
Rating Outlook:	Stable

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