

BANGKOK DUSIT MEDICAL SERVICES PLC

No. 198/2021
29 October 2021

CORPORATES

Company Rating:	AA
Issue Ratings:	
Senior unsecured	AA
Outlook:	Stable

Last Review Date: 26/10/20

Company Rating History:

Date	Rating	Outlook/Alert
24/10/19	AA	Stable
27/10/14	AA-	Stable
10/11/11	A+	Stable
17/12/10	A	Positive
11/02/08	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Bangkok Dusit Medical Services PLC (BDMS) and the ratings on its senior unsecured debentures at “AA”, with a “stable” outlook. The ratings reflect BDMS’s market position as the largest private hospital provider in Thailand, its extensive network of hospitals, and strong franchise of hospital brands. The ratings also take into consideration BDMS’s strong financial profile with low debt burden and ample liquidity. However, these strengths are partially offset by its softened operating performance during the Coronavirus Disease 2019 (COVID-19) pandemic and intense competition from local and international healthcare service providers.

KEY RATING CONSIDERATIONS

Largest private hospital operator in Thailand

BDMS is the market leader of private hospital operators listed on the Stock Exchange of Thailand (SET). The company has generated THB67-THB83 billion in yearly revenue over the past five years, or about 50% of the total amount of revenue reported by all listed healthcare service providers.

As of June 2021, BDMS had 49 hospitals across Thailand and neighboring country. BDMS had a service capacity of 6,290 inpatient beds, accounting for 16% of the total number of private hospital beds in Thailand. The company has extensive experience in the healthcare service industry spanning five decades and has the largest pool of skilled physicians and nurses, enabling it to undertake a comprehensive array of healthcare services and specialized treatments. Based on physician participation, more than 11,000 physicians and about 8,000 registered nurses work across BDMS’s hospital network.

TRIS Rating expects BDMS to retain its solid market position as the largest private hospital operator in Thailand, backed by its extensive hospital network, geographical diversification, large customer base, and proven medical track record.

Multiple brands targeting broad customer base

BDMS has five well-established hospital brands in Thailand, targeting a wide range of customer groups, covering medium to premium segments of local patients and international patients. Its domestic brands are Bangkok Hospital, Samitivej Hospital, BNH Hospital, Phyathai Hospital, and Paolo Hospital. These hospital brands are well-known among Thai patients because of their strong medical teams and the high-quality services offered at each hospital. BDMS’s 14 hospitals are accredited by the Joint Commission International (JCI) and widely accepted at the international level.

We expect BDMS’s broad customer base in several locations will help maintain the stability of its revenues. BDMS’s network of hospitals in tourist destinations, especially in the south and the east regions, generating about 20% of total patient revenue. Amid the ongoing COVID-19 outbreak, these hospitals suffered from sharp declines in numbers of foreign patients. On the other hand, those hospitals targeting local patients and expatriates in Bangkok and outside have adapted their healthcare capabilities to cope with the COVID-19 by scaling-up hospital capacities. Hence, revenues grew over 10% year-on-year (y-o-y) in some hospitals in the first half of 2021.

International patients to gradually resume by 2022

The tight control on entries into the country and quarantine requirements for foreign visitors have caused the number of foreign patient visits to shrink significantly. In 2020, total revenue from listed healthcare service companies dropped by about 12% from 2019. For those operators targeting healthcare tourism patients, revenue dipped by 15%-35% during the same period.

For the first half of 2021, the total revenue of SET-listed private hospital service providers rose by 9% y-o-y, driven by hospitals targeting local patients. The increasing number of Thai patient visits, together with COVID-19-related healthcare services amid the surge of COVID-19 cases, helped boost overall industry revenue.

The long-term outlook of the private hospital industry remains good amid the pandemic in our view. We expect the industry-wide revenue to grow, driven by rising local patient visits, aging society, and more people seeking for holistic health and wellness therapy. On the other hand, we expect the path to recovery for tourism-related businesses will likely take time to recover to pre-COVID-19 levels.

Recently, the government announced plans to relax quarantine measures, which will be a major step to reopen the country to foreign visitors. With Thailand's competitive strengths in quality healthcare services, convenient location, and lower costs compared with most other healthcare service providing countries, we expect the number of fly-in foreign patients will gradually rebound, starting from the end of 2021.

Performance to recover in 2022-2023

Normally, about 70% of BDMS's total patient revenue is derived from Thai patients and 30% from foreign patients. The COVID-19 pandemic and subsequent restrictions on travel caused BDMS's total revenue to decline by 18% in 2020 and a slight 1% y-o-y for the first half of 2021. During the successive COVID-19 outbreaks in 2020-2021, its revenue proportion from Thai patients rose to about 80% of total revenue.

We expect BDMS to deliver an improved performance over the next three years, supported by rising numbers of Thai patients and a gradual recovery of demand from international patients. BDMS has made more efforts to attract new local patients via marketing activities, promotional campaigns, and online channels. Revenue from Thai patients rose by 8% y-o-y in the first six months of 2021, to nearly THB26 billion. BDMS continues to develop its information technological platform to be a gateway, allowing customers to access its digital healthcare solutions, services, drugs, and supplements. Telemedical consultants are expected to gain more popularity and generate additional income in the post-COVID future.

During the flare-up in COVID-19 cases in Thailand, BDMS increased its capacity for COVID-19 testing and adding COVID-19 treatment facilities to accommodate the surge in COVID-19 patients. BDMS also cooperates with various hotels in serving patients with mild symptoms in the "hospital" facilities. BDMS's bed utilization rate in the first half of 2021 was about 53%. We expect the rising numbers of COVID-19 patients helped improve BDMS's bed utilization in 2021 and partly offset a drop in fly-in international patients.

For foreign patient visits, we expect significant resumption in foreign arrivals from the second half of 2022 onwards, after many countries achieve their population vaccination targets. We expect foreign patient visits to return close to pre-pandemic levels in 2023. Under our base-case scenario, we project BDMS's operating revenues to improve, rising by 5%-10% during the next three years.

Sustainable profit margin

BDMS reported earnings before interest, taxes, depreciation, and amortization (EBITDA) of about THB16 billion in 2020, down 17% from THB19.4 billion in 2019. This was mainly due to the drop in revenue and the number of foreign patient visits with more complex and high-acuity treatments. EBITDA for the first six months of 2021 was about THB7.5 billion, declining by 6% compared with the same period of 2020.

In response to the prolonged pandemic, BDMS has implemented expense controls and postponed major capital expenditures to alleviate the impact of depressed revenue. We expect BDMS to sustain its profit margin amid pressure from the ongoing COVID-19 outbreak and intense competition in the healthcare service industry.

Under our base-case scenario, we expect BDMS to keep its operating margin at around 21%-22% over the next three years, taking into account the impact of COVID-19, its cost control measures, and efficiency improvement initiatives.

Strengthening balance sheet

BDMS's debt level dropped to THB15.7 billion as of June 2021 from THB24.4 billion as of December 2019. The company prepaid around THB8.5 billion of long-term bank loans, using the proceeds received from the disposal of its investment in

Bumrungrad Hospital PLC (BH) in November 2020. The net debt to EBITDA ratio declined to about 1 times as of June 2021, from 1.3 times at the end of 2019.

We expect BDMS's financial profile to remain strong over the next three years. In our base-case forecast, we expect the company to spend about THB6-THB8 billion per annum for maintenance capital expenditures, technology-related development, and capacity expansion at existing hospitals. We expect BDMS to finance most capital expenditures with operating cash flows. During the next three years, in absence of large acquisitions and/or big investment, its capitalization ratio is forecast to be below 25% and its debt to EBITDA ratio to stay at about 1 times. The ratio of funds from operations (FFO) to total debt is forecast to stay above 60%.

Strong liquidity profile

We assess BDMS to have ample liquidity over the next 12-18 months. As of June 2021, its sources of funds comprised cash on hand and cash equivalents of THB10.9 billion, with an undrawn bank facility of THB22 billion. We forecast FFO to be around THB12.5-THB13 billion over the next 12 months. Uses of funds include capital expenditures, estimated at about THB6-THB8 billion per annum and maturing debentures of THB3.1 billion in 2022. TRIS Rating's baseline scenario expects BDMS to have sufficient funds to meet the upcoming commitments over the next 12-18 months.

The key financial covenants on its debenture and bank loan obligations are the maintenance of an interest-bearing debt to equity ratio below 1.75 times, and a net debt to EBITDA ratio below 3.25 times. At the end of June 2021, the ratios were 0.1 times and 0.6 times, respectively. We believe that the company has no problems in complying with the financial covenants over the forecast period.

BASE-CASE ASSUMPTIONS

- Operating revenues to improve, rising by annual growth rate of about 5%-10% during the next three years.
- EBITDA margin to be in the 21%-22% range.
- Total capital spending of around THB6-THB8 billion per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BDMS will maintain its leading position in the private hospital market and maintain a strong financial profile.

RATING SENSITIVITIES

The ratings and/or outlook could be revised upward if BDMS's operating performance improves to near pre-COVID-19 levels, while maintaining a strong financial profile. A downward rating action could be triggered if BDMS's operating performance and financial status deteriorate significantly. Any large debt-funded investments and/or acquisitions which significantly weaken its balance sheet are credit negatives.

COMPANY OVERVIEW

BDMS was established in 1969. Bangkok Hospital, its first private hospital, commenced operation in 1972. BDMS was listed on the SET in 1991. As of June 2021, the major shareholder of BDMS was Dr. Prasert Prasarttong-Osoth and spouse, with a combined shareholding of 14.9%.

BDMS is the largest private hospital operator in Thailand, owning 49 hospitals as of June 2021. The company delivers a comprehensive array of healthcare services spanning all levels and intensities of care. BDMS offers conventional healthcare, from secondary to tertiary and super-tertiary care levels, as well as preventive healthcare. In 2011, the company merged with Health Network PLC (HNC), the major shareholder of Phyathai Hospital and Paolo Hospital Group. During 2018-2019, the company launched BDMS Wellness Clinic to provide preventive healthcare services. Its wellness clinic is situated next to the Movenpick BDMS Wellness Resort Bangkok, a 293-room hotel.

The company's total operating revenue was THB69 billion in 2020 and about THB33.7 billion for the first half of 2021. Patient revenue contributed about 94% of its total operating revenue. Revenues from the inpatient department (IPD) contributed 53%; the remainder came from outpatients. Normally, 70% of total healthcare service revenue is from Thai patients. In 2020, nearly 80% of total patient revenue was from Thai patients. Self-pay patients made up 52% of patient revenue, followed by patients covered by health insurance (32%), company-contracted patients (9%), as well as patients under the social security scheme and others (7%).

KEY OPERATING PERFORMANCE
Table 1: Hospitals in BDMS's Portfolio as of Aug 2021

Hospital	Abbreviation	Ownership (%)
1. Bangkok Hospital		100.0
2. Bangkok Heart Hospital		100.0
3. Wattanosoth Hospital	BHQ *	100.0
4. Chiva Transitional Care		100.0
5. Bangkok International Hospital		100.0
6. Bangkok Hospital Hua Hin	BHN *	100.0
7. Bangkok Hospital Sanamchan	BSN	100.0
8. Bangkok Hospital Phetchaburi	BPR	100.0
9. Bangkok Hospital Muangraj	BMR	100.0
10. Bangkok Hospital Pattaya	BPH *	97.3
11. Bangkok Hospital Rayong	BRH *	100.0
12. Bangkok Hospital Chanthaburi	BCH	99.7
13. Bangkok Hospital Trat	BTH	99.8
14. Bangkok Hospital Chiangmai	BCM *	100.0
15. Bangkok Hospital Ratchasima	BKH	91.5
16. Bangkok Hospital Pakchong	BHP	91.5
17. Bangkok Hospital Udon	BUD	100.0
18. Bangkok Hospital Phitsanulok	BPL	100.0
19. Bangkok Hospital Khon Kaen	BKN	100.0
20. Bangkok Hospital Chiangrai	BCR	100.0
21. Bangkok Hospital Phuket	BPK *	99.7
22. Bangkok Hospital Hat Yai	BHH	98.8
23. Bangkok Hospital Samui	BSH *	100.0
24. Bangkok Hospital Surat	BSR	100.0
25. Bangkok Hospital Siriroj	BSI *	100.0
26. Samitivej Sukhumvit Hospital	SVH *	95.8
27. Samitivej Srinakarin Hospital	SNH *	95.8
28. Samitivej Sriracha Hospital**	SSH *	67.4
29. Samitivej Thonburi Hospital	STH	64.0
30. Samitivej Chonburi Hospital	SCH	100.0
31. Samitivej Chinatown Hospital	SCT	100.0
32. BNH Hospital	BNH *	91.5
33. Phyathai 1 Hospital***	PT1	98.6
34. Phyathai 2 Hospital***	PT2 *	97.8
35. Phyathai 3 Hospital***	PT3	97.6
36. Phyathai Sriracha Hospital***	PTS	74.4
37. Phyathai Nawamin Hospital	PTN	99.8
38. Paolo Paholyothin Hospital	PLP	100.0
39. Paolo Samutprakarn Hospital	PLS	93.7
40. Paolo Chokchai 4 Hospital	PLC	85.7
41. Paolo Rangsit Hospital	PLR	100.0
42. Paolo Kaset Hospital	PLK	100.0
43. Paolo Phrapradaeng Hospital	PLD	84.0
44. Thepakorn Hospital****	TPK	50.0
45. Sri Rayong Hospital	SRH	100.0
46. Dibuk Hospital	DBK	99.7
47. Jomtien Hospital	JTH	97.3
48. Royal Phnom Penh Hospital	RPH *	100.0
49. Royal Angkor International Hospital	RAH	80.0

Source: BDMS

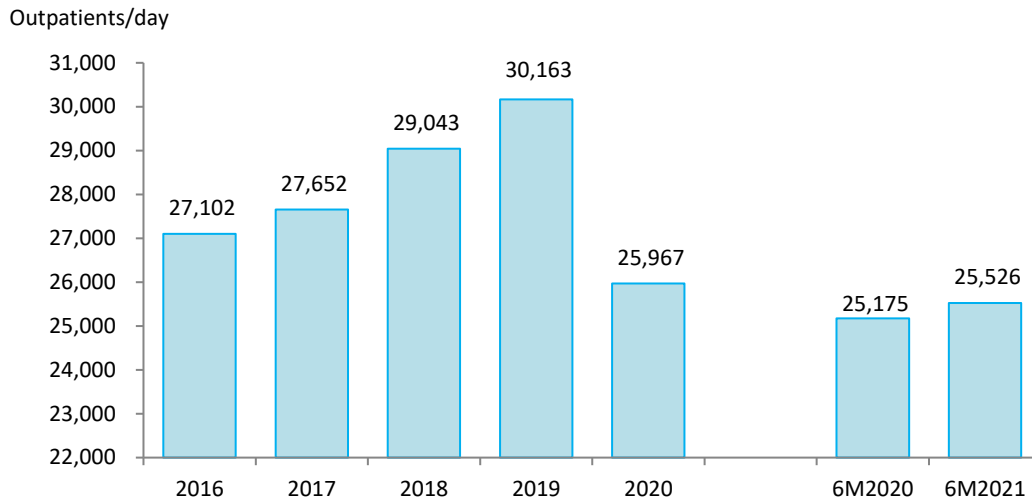
* Hospitals achieved Joint Commission International accreditation

** Indirect shareholding through Samitivej PLC

*** Indirect shareholding through Prasit Patana PLC (PPCL), in which BDMS owns 98.60%

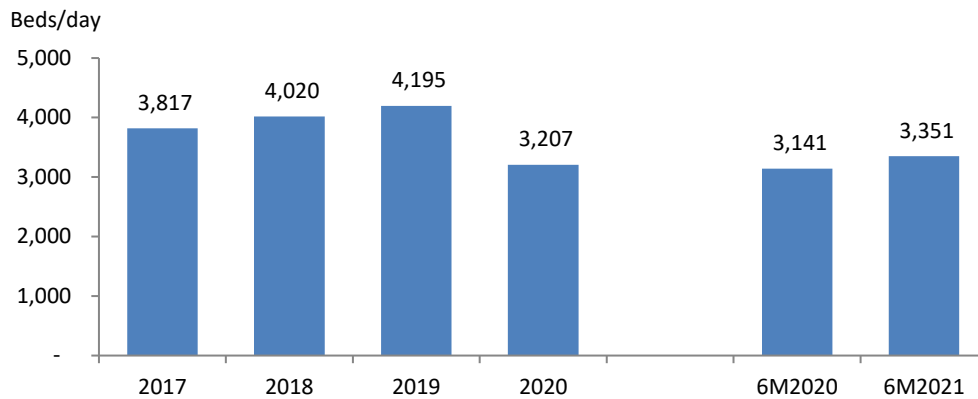
**** Indirect shareholding through Bangkok Hospital Sanamchan Co., Ltd.

Chart 1: Outpatient Visits per Day



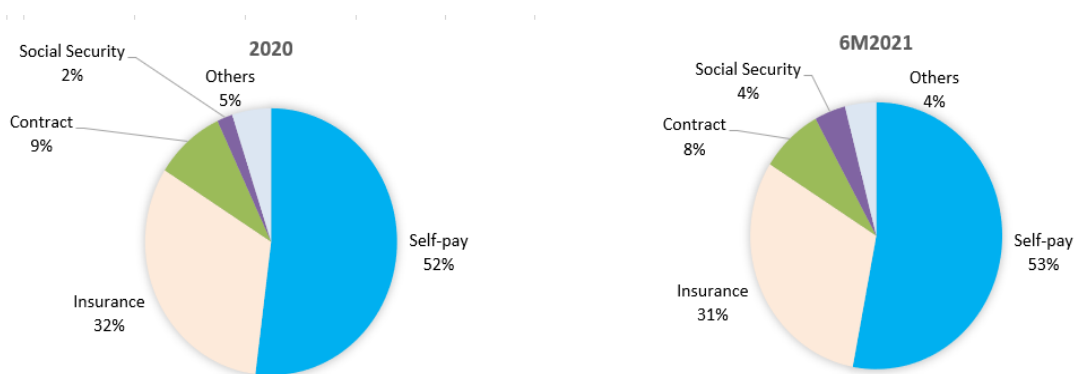
Source: BDMS

Chart 2: Average Daily Census



Source: BDMS

Chart 3: Patient Revenue by Payor: Increasing Insurance Portion



Source: BDMS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	33,678	69,057	83,774	78,288	72,772
Earnings before interest and taxes (EBIT)	4,124	8,958	13,428	13,746	11,955
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,502	16,013	19,371	18,528	16,652
Funds from operations (FFO)	6,384	12,276	14,333	14,429	12,392
Adjusted interest expense	405	986	1,164	1,359	1,696
Capital expenditures	1,955	6,654	7,995	7,700	15,605
Total assets	124,183	136,050	133,662	133,499	122,627
Adjusted debt	13,487	8,671	25,215	39,036	37,528
Adjusted equity	85,658	91,463	87,182	73,438	65,871
Adjusted Ratios					
EBITDA margin (%)	22.28	23.19	23.12	23.67	22.88
Pretax return on permanent capital (%)	7.53 **	7.51	11.38	12.11	11.79
EBITDA interest coverage (times)	18.52	16.24	16.64	13.63	9.82
Debt to EBITDA (times)	0.87 **	0.54	1.30	2.11	2.25
FFO to debt (%)	88.14 **	141.57	56.85	36.96	33.02
Debt to capitalization (%)	13.60	8.66	22.43	34.71	36.29

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Bangkok Dusit Medical Services PLC (BDMS)

Company Rating:	AA
Issue Ratings:	
BDMS222A: THB2,500 million senior unsecured debentures due 2022	AA
BDMS233A: THB4,000 million senior unsecured debentures due 2023	AA
BDMS242A: THB1,500 million senior unsecured debentures due 2024	AA
BDMS256A: THB2,000 million senior unsecured debentures due 2025	AA
BDMS266A: THB3,000 million senior unsecured debentures due 2026	AA
Rating Outlook:	Stable

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