

BUMRUNGRAD HOSPITAL PLC

No. 144/2018
3 October 2018

CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
23/09/15	A+	Stable
21/10/11	A	Stable

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RATIONALE

TRIS Rating affirms the company rating and the senior unsecured debenture ratings on Bumrungrad Hospital PLC (BH) at “A+”. The ratings reflect BH’s leading position in the premium segment of Thailand’s private healthcare market, its well-accepted brand among local and international patients, and its strong financial profile supported by its high profitability and very low leverage. However, these strengths are partially offset by intense competition in the local and international healthcare markets, the risk from single premise limitation, and the slowdown in the growth of patient number, especially patients from the Middle East countries.

KEY RATING CONSIDERATIONS

Leading private hospital in Thailand

BH is considered one of the top private hospital operators in Thailand. The company operates a hospital in Bangkok under the name “Bumrungrad International Hospital”. The company focuses mainly on the high-end local and international patients. Its revenue is ranked number two among the private hospital operators listed on the Stock Exchange of Thailand (SET-listed). Despite the slowdown in domestic and Middle East economies, BH’s revenues and profitability continue to grow at a satisfactory rate. The compound annual growth rate (CAG) of its patient service revenues and net profit during 2013-2017 were 6.38% and 11.84%, respectively.

In TRIS Rating’s view, BH should be able to maintain its strong market position in the medium to long term. BH’s ability to post strong and steady growth in revenues is underpinned by a strong brand name and a respectable clinical outcome. In addition to the company’s high quality in medical staff, BH continually invests in high-technology medical equipment. Therefore, the company can undertake more complex cases and charge higher prices. Revenue intensity has played a major role in driving the growth in BH’s revenues over the past few years.

Well-accepted brand internationally

BH has earned very strong brand recognition among both Thai and international patients. About 65% of BH’s total revenue has been derived from foreign patients, particularly patients from the Middle East. Patients from the Middle East, have accounted for 20%-22% of BH’s total revenue during the past three years. BH’s strong market position among foreign patients stems from the company’s reputation in medical service and lower prices, compared with hospitals in developed countries.

TRIS Rating views that a higher portion of foreign patients helps to diversify BH’s sources of revenue, reduce its reliance on domestic demand and decrease the competitive pressure from domestic peers. The large number of foreign patients also yields economies of scale, as overhead costs for hospitals accepting foreign patients are relatively high. Despite a fall in the number of foreign patients from the United Arab Emirates (UAE), a rise in the number of patients from other countries such as Myanmar, the Sultanate of Oman, and Bangladesh, helps partially offset a drop in the number of patients from the UAE. As a result, the total number of international patients served by BH remained flat during 2017 through the first seven months of 2018.

Single site risk

BH's credit profile is constrained by a single location risk. Unlike other hospital operators rated by TRIS Rating, BH generates almost all of its revenue from a single facility in Bangkok. The contribution from its investment in Ulaanbaatar Songdo Hospital, a private hospital in Mongolia, is still minimal and may not be able to grow much in the medium term. In addition, BH's plan to build a 200-bed hospital on Petchburi road has been postponed several times due to the lower-than-projected growth in the number of foreign patients coupled with its ability to expand the capacity on its existing premise. Based on BH's service capacity at the main campus, the utilization rates for outpatients and inpatients in 2017 were 52% and 63%, respectively. The remaining capacity at the main campus is expected to accommodate increasing numbers of patient for the next three to five years.

BH decides to postpone the Petchburi project to 2020 or until additional capacity is needed. Therefore, the concern over its single site risk remains. However, the company plans to expand its main campus to Sukhumvit Soi 1 to alleviate the concentration on its main campus. The Sukhumvit Soi 1 project will comprise three buildings, one of which is primary for a parking lot, the second is a training center, and the third is an outpatient clinic. The investment on Sukhumvit Soi 1 is expected to start in 2019. BH's total capital expenditures during 2018-2021 will be around Bt18,300 million. The budget includes Bt8,200 million at the 200-bed hospital on Phetchburi road, Bt2,200 million for the investment on Sukhumvit Soi 1, maintenance capital expenditures of Bt1,200-Bt1,600 million per annum, and others.

Competition remains intense

A number of domestic private hospitals compete with differentiations by specializing in advanced medical treatment areas, such as heart disease, cancer, or orthopedic. Several top-tier private hospitals also target foreign patients and partner with international organizations to increase their market opportunities. According to the Board of Investment of Thailand, the average number of foreign patients receiving medical services in Thailand amounted to 2.0 million persons per year during the last three years. Domestic hospitals targeting medical tourists also have to compete with overseas hospitals from other Asian countries like Singapore, Malaysia, Hong Kong, and India. These countries are also striving to be the "Medical Hub of Asia". However, Thailand's competitiveness as a medical hub is not expected to change rapidly as several medical treatment costs in Thailand are still lower than other advanced countries, such as the United States (US) and Singapore.

Strong financial profile

BH's profitability is very high compared with its rated peers. Its operating income before depreciation and amortization as a percentage of revenue (operating margin) was 33.1% in 2017, rising from 31.4% in 2016. BH's operating margin continued to improve, rising to 35.2% during the first half of 2018, from 34.6% over the same period of 2017. Earnings before interest, tax, depreciation, and amortization (EBITDA) increased to Bt6,186 million in 2017, up from Bt5,786 million in 2016. During the first half of 2018, revenue from both Thai and foreign patients were relatively flat. However, BH's EBITDA still increased by 3.6% year-on-year (y-o-y) to Bt3,198 million during the first half of 2018. A continued focus on revenue intensity and efficient cost control help BH sustain its profitability at satisfactory level. BH's leverage is very low. Since the company had no major capital expenditures in the past several years, the company is in the net cash position. At the end of June 2018, the company had Bt8,679 million in cash and short-term investments. Its interest-bearing debts stood at only Bt3,676 million. Despite its capital expenditures plan during 2018-2021, BH's debt-to-capitalization ratio is expected to stay below 30%.

Sound liquidity and financial flexibility

BH's liquidity is strong. Its outstanding debt at the end of June 2018 was Bt3,676 million, comprising Bt3,500 million of bonds and Bt176 million of long-term debt. Only Bt1,000 million of its bonds will be due within 2018, the remaining amount will be due in 2021. At the end of June 2018, BH's cash on hand and marketable securities stood at Bt8,679 million. BH's forecast of EBITDA would be around Bt5,500-Bt6,000 million per year during 2018-2021. Dividend payments are forecast at around Bt1,400-Bt2,000 million per annum

RATING OUTLOOK

The "stable" outlook is based on our expectation that BH will maintain its leading position in the premium healthcare segment and continue delivering strong financial results. High cash balances and stable cash flows will provide financial flexibility while the company is investing and expanding.

TRIS Rating expects BH's revenue to grow slightly at 1% per annum during the next three years. BH's operating margin is expected to remain healthy, averaging 30% annually during 2018-2021. Its funds from operations (FFO) should be around Bt4,200-Bt4,500 million, which is sufficient for its expansion.

RATING SENSITIVITIES

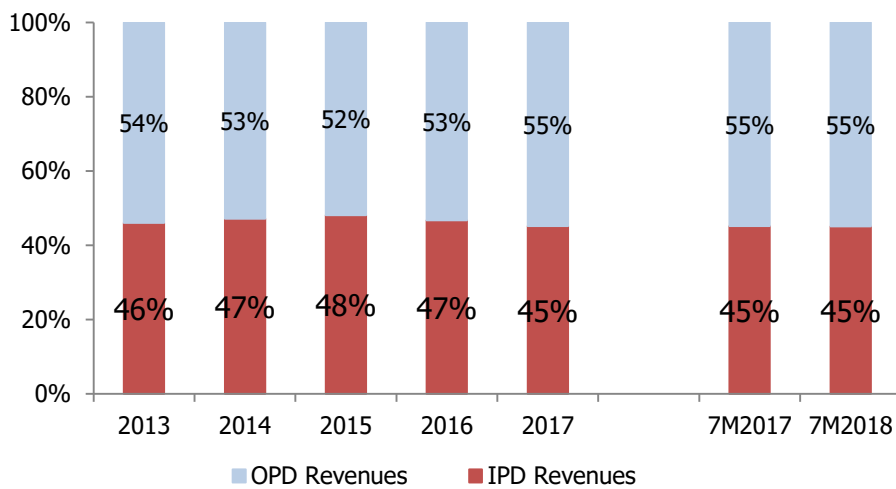
BH’s ratings could be upgraded should the company successfully diversify its portfolio of businesses while maintaining a strong financial profile. The rating downside is limited. However, the rating downgrades could arise should BH’s operating performance drop significantly from the current level, leading to weaker market position and noticeably weak profitability.

COMPANY OVERVIEW

BH operates a hospital in Bangkok under the name “Bumrungrad International Hospital”. The company is a leading private healthcare provider in Thailand and the Asian region, with service capacities of 6,260 outpatients per day and 676 registered inpatient beds (including Ulaanbaatar Songdo Hospital in Mongolia). The company focuses mainly on the tertiary care treatment. Foreign patients account for more than 50% of the total number of patient visits annually. About 70% of total revenue is from self-pay patients.

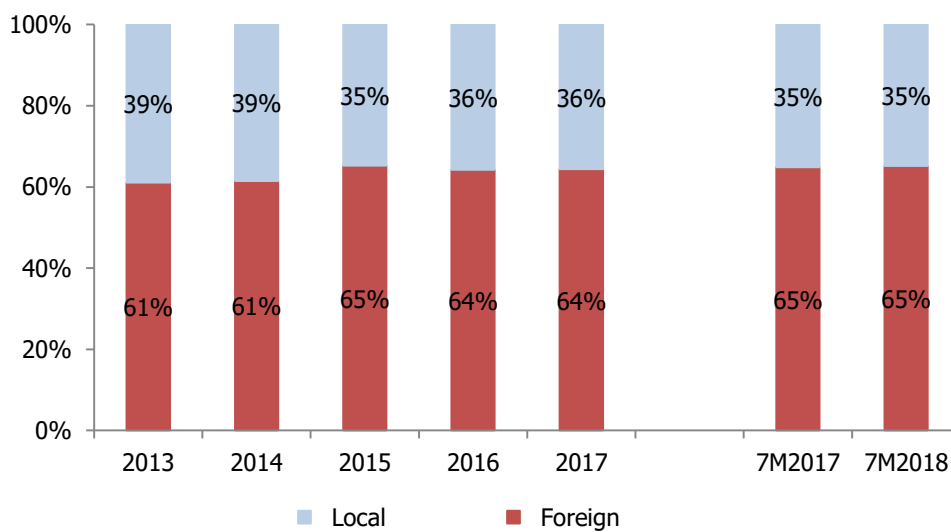
KEY OPERATING PERFORMANCE

Chart 1: BH’s Revenue Contribution by Service Type



Source: BH

Chart 2: BH’s Revenue Contribution by Nationality



Source: BH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	-----Year Ended 31 December -----				
	Jan-Jun 2018	2017	2016	2015	2014
Total operating revenues	8,943	18,423	17,990	17,746	15,726
Operating income	3,144	6,092	5,651	5,342	4,527
Earnings before interest and taxes (EBIT)	2,595	4,950	4,610	4,456	3,627
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,198	6,186	5,786	5,525	4,711
Funds from operations (FFO)	2,648	5,151	4,756	4,443	3,763
Adjusted interest expense	89	194	257	259	263
Capital expenditures	508	1,667	2,453	1,541	1,257
Total assets	24,165	23,484	21,333	21,298	19,145
Adjusted debt	0	0	0	0	0
Adjusted equity	17,501	16,705	14,788	13,100	11,260
Adjusted Ratios					
Operating income as % of total operating revenues (%)	35.15	33.07	31.41	30.10	28.79
Pretax return on permanent capital (%)	24.30 **	24.71	24.36	24.93	22.58
EBITDA interest coverage (times)	35.86	31.90	22.54	21.32	17.94
Debt to EBITDA (times)	0.00	0.00	0.00	0.00	0.00
Debt to capitalization (%)	0.00	0.00	0.00	0.00	0.00

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

** Annualized with trailing 12 months

Bumrungrad Hospital PLC (BH)

Company Rating:	A+
Issue Ratings:	
BH18DA: Bt1,000 million senior unsecured debentures due 2018	A+
BH21DA: Bt2,500 million senior unsecured debentures due 2021	A+
Rating Outlook:	Stable

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