

BUMRUNGRAD HOSPITAL PLC

No. 155/2019
30 September 2019

CORPORATES

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

Last Review Date: 03/10/18

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 on Bumrungrad Hospital PLC (BH) and the rating on BH's senior unsecured debentures at "A+" with a "stable" outlook. The ratings reflect BH's leading position in the premium segment of Thailand's private healthcare market, its well-accepted brand among international and local patients, and its strong financial profile supported by high profitability and very low debt level. The ratings are constrained by its single premise and the slowdown in both the domestic and global economies which could lead to a lower growth prospect and more intense competition in the domestic healthcare service industry.

KEY RATING CONSIDERATIONS

Strong market position

BH is considered one of the top private hospital operators in Thailand. BH provides premium healthcare services with a highly sophisticated level of care, to attract both high-income domestic and foreign patients. In 2018, BH's revenue from healthcare services totaled Bt18.26 billion, ranking in the top two among the private hospital service providers listed on the Stock Exchange of Thailand (SET). The compound annual growth rate (CAGR) of BH's patient service revenues and net profit during 2014-2018 were around 5% and 10%, respectively.

TRIS Rating holds the view that BH should be able to maintain its strong market position over the medium to long term. BH's ability to post resilient growth in revenues is underpinned by the solid reputation of its brand name and its respectable clinical track record. BH has made on-going investment in advanced technology medical equipment while keeping a high quality of services and skilled medical staff, enabling it to undertake more complex cases. This, together with higher patient acuity, will help increase revenue per patient and improve utilization of medical equipment. Looking ahead, we expect revenue intensity will continue to play a major role in driving growth in BH's revenues.

Revenue growth from international patients to continue

The "Bumrungrad International Hospital" brand is widely accepted at the international level and among Thai patients. BH is well-recognized for its superior tertiary healthcare services and specialized healthcare treatment. About 65% of BH's total revenue is derived from foreign patients. Revenue arising from patients from the Middle East has accounted for 21%-23% of total patient revenue during the past three years. Patients from the Indo-China region have also continued to grow, representing nearly 20% of total revenue in 2018. BH's strong market position among foreign patients stems from its reputation in medical services and relatively lower prices compared with hospitals in developed countries.

TRIS Rating holds the view that a high proportion of international patients helps diversify BH's sources of revenue, reducing reliance on domestic demand. Despite the decline in revenue from Thai patients in 2018 through June 2019 due to the economic slowdown, BH was able to boost overall patient revenue, driven by higher foreign patient revenue. The large number of foreign patients also yields economies of scale, as overhead costs for hospitals accepting foreign patients are relatively high.

Despite the slowdown of the global economy and a drop in the number of the

Middle East tourist arrivals to Thailand, revenue arising from patients from the Middle East at BH in 2018 rose by 7.0% from the 2017 level, and continued to increase by 4.2% year-on-year (y-o-y) for the first seven months of 2019. Revenue arising from patients from Indo-China rose by 5.4% y-o-y for the first seven months of 2019. We expect the revenue growth from international patients to continue over the next three years.

Single-site risk

BH's credit profile is constrained by a single-location risk. 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, remains small in proportion to BH's total revenue and may not be able to grow significantly in the medium term. We expect the single-location risk to remain over the medium term. Based on BH's service capacity at its main campus, the bed utilization rate in 2018 was 62.4%. The remaining capacity at the main campus is expected to accommodate increasing numbers of patients over the next three years. A new 200-bed hospital project on Bangkok's Phetchburi Road is expected to be postponed until 2022, or until additional capacity is needed.

However, the company plans to expand the main hospital to Sukhumvit Soi 1, to alleviate the concentration on its main campus. The Sukhumvit Soi 1 project will comprise three buildings, one of which will house a parking lot, the second a training center, and the third an outpatient clinic. The investment for the Sukhumvit Soi 1 project is expected to start in the final quarter of 2019. The company also plans to expand its outpatient capacity at the main campus by converting some areas and renovating some floors of the building for clinical use. In addition, BH plans to expand its Vitallife services (integrative preventative and wellness sanctuary services) at Bangkrajao, Samutprakarn Province. This project is expected to open in April 2020.

BH's total capital expenditure during 2019-2022 will be around Bt18.5 billion. The budget includes Bt2.4 billion for the investment on Sukhumvit Soi 1, Bt2.3 billion for construction and renovation at the main campus, plus the hospital's maintenance capital expenditure of Bt1.2-Bt1.6 billion per annum. The capital expenditure plan for the project on Phetchburi Road is estimated at about Bt8.2 billion.

Intense competition to continue

TRIS Rating expects that a slowdown in the domestic economy will impact local patient volume. In addition, more new entrants to the private healthcare segment over the next three years may further intensify competition. Private hospitals targeting the international patients will have to compete with not only Thai private hospitals but also with hospitals in other countries, particularly hospitals in 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. The average number of foreign patients receiving medical services in Thailand amounted to 2.0 million persons per year during the last three years. Tourism receipts from medical care in Thailand in 2018, according to the Ministry of Tourism and Sports of Thailand, amounted to around Bt32.2 billion, an increase of 18% from 2017. The Thai government has approved 90-day visas for patients and medical visitors from China and Thailand's neighboring countries. We expect the number of patients from East Asia and Indo-China seeking medical treatment in Thailand to grow steadily over the next three years.

Despite the intense competition and a slowdown in the domestic economy, TRIS Rating expects BH's revenues to continue to grow, but at a low single-digit rate over the next three years. Revenues are forecast to range between Bt18.6-Bt19.2 billion per annum. The growth drivers are new advanced services and innovative health technology, an increase in revenue intensity, and a rise in international patient volume. We believe that BH will put more effort into offering more complex levels of care and into expanding its patient base by tapping into new market opportunities overseas.

Strong financial profile, supported by high profitability and very low leverage

TRIS Rating expects BH to continue to record strong profit. BH's profitability is very high compared with its SET-listed peers. BH's operating margin in 2018 was 34.2%, compared with the average profit margin of SET-listed peers at about 20%. However, BH's operating margin in the first six months of 2019 dropped to 31.2%, owing to the soft domestic economy and the implementation of new Thai severance law. Looking ahead, TRIS Rating forecasts BH's operating margin will stay at 31%-32% during the next three years.

In addition, BH has been in a net cash position for years. As of June 2019, cash on hand and cash equivalents amounted to Bt8.43 billion. We forecast BH's funds from operations (FFO) will be at Bt4.80-Bt5.20 billion per annum during 2019-2022. Outstanding debt at the end of June 2019 was Bt3.23 billion, down from Bt4.24 billion at the end of 2017. BH has been paying down its outstanding debts and made no significant capital expenditures during the last three years. Its high cash balance is sufficient to cover the scheduled debt repayments and fund a large investment. BH's use of funds over the next three years will comprise planned capital expenditures of around Bt2.80-Bt7.50 billion per annum, plus long-term bond

repayments of Bt2.50 billion coming due in 2021. Dividend payments are forecast at around Bt1.90-Bt2.20 billion per annum.

BASE-CASE ASSUMPTIONS

- Revenue should grow slightly at around 1%-2% per annum during the next three years.
- Operating margin to remain healthy, averaging 31%-32% annually during 2019-2022.
- Total capital spending will be about Bt18.50 billion during 2019-2022.

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 a strong financial profile. High cash balances and stable cash flows will provide financial flexibility while the company is investing and expanding.

RATING SENSITIVITIES

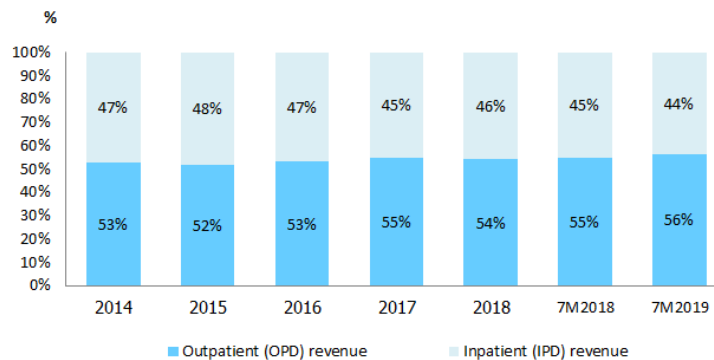
BH’s ratings could be upgraded should the company successfully diversify its portfolio of businesses and locations, while maintaining a strong financial profile. The potential for a rating downgrade is limited in the medium term. However, a rating downgrade could arise should BH’s operating performance drop significantly from the current level, leading to a 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 capacity of 6,260 outpatients per day and 676 registered inpatient beds (including Ulaanbaatar Songdo Hospital in Mongolia). The company focuses mainly on tertiary care treatment. Foreign patients account for around 55% of the total number of patient visits and 65% of total revenues in 2018. About 71% of total revenue is from self-pay patients.

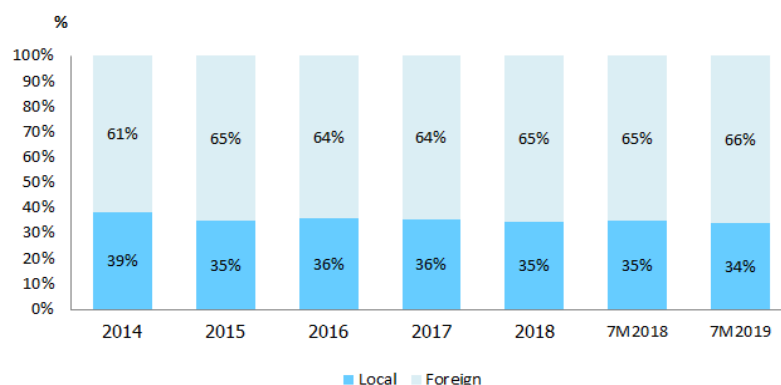
KEY OPERATING PERFORMANCE

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

	Jan-Jun 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	9,007	18,416	18,168	17,990	17,746
Operating income	2,806	6,297	6,092	5,651	5,342
Earnings before interest and taxes (EBIT)	2,255	5,218	4,950	4,610	4,456
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,873	6,417	6,186	5,786	5,525
Funds from operations (FFO)	2,427	5,346	5,151	4,756	4,443
Adjusted interest expense	64	191	194	257	259
Capital expenditures	541	893	1,667	2,453	1,541
Total assets	25,157	24,749	23,484	21,333	21,298
Adjusted debt	0	0	0	0	0
Adjusted equity	18,646	18,194	16,155	14,238	12,550
Adjusted Ratios					
Operating income as % of total operating revenues (%)	31.16	34.19	33.53	31.41	30.10
Pretax return on permanent capital (%)	21.93	24.24	24.71	24.36	24.93
EBITDA interest coverage (times)	44.62	33.62	31.90	22.54	21.32
Debt to EBITDA (times)	0.00	0.00	0.00	0.00	0.00
FFO to debt (%)	0.00	0.00	0.00	0.00	0.00
Debt to capitalization (%)	0.00	0.00	0.00	0.00	0.00

RELATED CRITERIA

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

Bumrungrad Hospital PLC (BH)

Company Rating:	A+
Issue Rating:	
BH21DA: Bt2,500 million senior unsecured debentures due 2021	A+
Rating Outlook:	Stable

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