

Press Release

No. 33/2020
3 March 2020

TRIS Rating Sees BDMS's Conditional Voluntary Tender Offer for BH's Shares Has Neutral to Negative Effect on BDMS's Ratings and Has No Immediate Effect on BH's Ratings

TRIS Rating holds the view that the conditional voluntary tender offer by Bangkok Dusit Medical Services PLC (BDMS) to acquire additional shares of Bumrungrad Hospital PLC (BH) will have neutral to negative effect on BDMS's credit ratings, depending on the amount of shares it manages to acquire in the tender offer. On the other hand, we see the potential transaction has no immediate effect on BH's ratings.

BDMS currently holds 182.5 million of BH's shares, or about 24.99% of the total issued share of BH. On 27 February 2020, the board of directors of BDMS approved a conditional voluntary tender offer for all the remaining securities including ordinary shares, preference shares, and convertible debentures of BH held by other shareholders. The offer price is Bt125 per share, amounting to Bt85.61 billion. The offer price could be adjusted by 20% depending on the prevailing market condition and trading price of BH's shares at the time.

In our view, the tender offer could have effect on BDMS's credit profile if it materializes, depending on amount of BH's shares being acquired and the company's future capital structure. The company intends to use its internal cash flow and new bank loans to fund the investment. Given the potentially huge investment cost, a successful tender offer will likely require substantial new loans to fund the investment. We have yet reviewed the potential effect of synergy and consolidation of BH's financial statements. Our view at this stage is that the scenario of a large debt-funded investment could raise significant debt and increase the debt to EBITDA ratio to stay over 2 times which would not commensurate with BDMS's current credit ratings. However, the impacts could be immaterial, if BDMS could purchase only a small proportion of BH's shares.

The transaction is subject to the approval by BDMS's shareholders at an Annual General Meeting scheduled on 10 April 2020 and the approval of the Office of Trade Competition Commission (OTCC).

On the other hand, TRIS Rating sees the potential transaction has no immediate effect on BH's ratings and outlook. BH announced that BDMS's action is an unsolicited voluntary tender offer and that BH's management had not gotten prior knowledge of the transaction. BH insists that BH and BDMS are competitors in the Thai healthcare industry, particularly in the medical tourism segment. BH intends to engage and cooperate with the OTCC to counter against BDMS's action.

In TRIS Rating's view, it is too early to determine the likelihood of the tender offer's success, given that BH's management has rejected the offer and the transaction is subject to the approval of the OTCC. TRIS Rating will closely monitor the development and further assess the effects of this potential transaction on the creditworthiness of BDMS and BH.

BDMS is rated "AA" and BH is rated "A+", with "stable" outlooks by TRIS Rating

TRIS Rating Co., Ltd./www.trisrating.com

Contact: santaya@trisrating.com, Tel: 0-2098-3000/Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand

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