

# VEJTHANI PLC

No. 113/2024  
4 July 2024

## CORPORATES

**Company Rating:** BBB+  
**Outlook:** Stable

**Last Review Date:** 03/07/23

Company Rating History:		
Date	Rating	Outlook/Alert
22/07/22	BBB	Stable

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## RATIONALE

TRIS Rating upgrades the company rating on Vejthani PLC (VTN) to “BBB+” from “BBB”, with a “stable” rating outlook. The upgrade reflects continued growth in VTN’s revenue and profitability, underpinned by its strong balance sheet. Adjusted debt has been declining and the company is on its path towards a net cash position even after completing construction of a new hospital in mid-2023. Earnings have shown strong post-pandemic growth, with EBITDA reaching THB1.1 billion in 2023.

The rating continues to reflect the company’s proven track record of providing comprehensive healthcare services in the global medical tourism market and its standing as one of the leading private hospitals for the middle- to high-income patient segments in Thailand. The rating also incorporates the company’s forthcoming investment plans alongside its conservative financial policy. However, the rating is weighed down by asset concentration risk and the intense competition in the private healthcare industry.

## KEY RATING CONSIDERATIONS

### Strong growth in international patients

We expect the company to maintain its competitive strength in the medical tourism healthcare services. Vejthani Hospital has gained a strong reputation in specialized fields such as spinal surgery, orthopedics, bone and joint disease treatment, as well as in vitro fertilization (IVF) among international patients. The hospital has further expanded its medical services, including a diabetic foot and wound healthcare center, gaining recognition among Arab patients. We believe new medical service offerings and adoption of advance medical technologies while increasing the number of skilled physicians, will help reaching new patient groups and further materializing its revenue potential.

Looking ahead, we expect the number of international patient visits to continue increasing. The company is expanding its market abroad, targeting Arab patient groups and the neighboring countries of Thailand. We believe Thailand’s competitive advantage in healthcare services, particularly in terms of affordability and modern facilities, will remain strong due to its location advantage and renowned Thai hospitality.

In 2023, revenue from international patients rose significantly to THB1.7 billion, a 12% increase from 2022 and above the pre-pandemic level of THB1.5 billion in 2019. For the first quarter of 2024, revenue from international patients continued to grow by about 8% year-on-year (y-o-y), despite a setback from Kuwait due to a recent government policy change.

### Continued improvement in performance

We view the rebound of fly-in patient visits post-pandemic along with an increase in the number of complex treatments as key growth drivers for VTN over the next three years. Treatments for complex and difficult conditions tend to need longer hospital stay, generating more revenues, and fly-in patients often have more complex medical conditions that require a higher level of care.

In our baseline projections for 2024-2026, we expect VTN’s total revenue to grow by 5%-10% annually. EBITDA margin is forecast to hover in the 31%-32% range over the next three years. VTN’s strategy will focus on providing complex care, enhancing operating efficiency with cost control initiatives, adopting

artificial intelligence (AI) and automation, and utilizing digital marketing to maintain its profit margins. We project its EBITDA to be THB1.2-THB1.3 billion per year during 2024-2026.

In 2023, VTN's healthcare service revenue rose to THB3.4 billion, a 9% increase from the previous year. In the first three months of 2024, revenue continued to grow by 11% y-o-y to THB852 million. The EBITDA margin of 30%-32% in 2023 through the first quarter of 2024 is relatively high compared with its listed peers, whose average EBITDA margin is around 20%-23%.

#### **Limited contribution to revenue from the new specialized hospital**

The company opened a specialized psychiatric hospital, named "Bangkok Mental Health Hospital" (BMHH), in August 2023. The new 30-bed hospital, located in Nonthaburi province, offers comprehensive mental health services, including counseling and medical treatment for patients with conditions such as depression, anxiety, and emotional problems. It also provides inpatient care for people with severe mental illnesses. The total investment in this project is about THB530 million.

Revenue from the new hospital remains small compared with that of the main campus in Ladprao. In 2023 (since its establishment in August 2023), BMHH generated THB17 million in revenue while EBITDA remained negative. We expect the new hospital will take time to ramp up its revenue and profits, as well as establish a reputation in mental healthcare treatment.

#### **Financial leverage expected to remain low over the forecast period**

VTN's financial metrics remain strong despite recent investment in the new psychiatric hospital. We estimate the company to spend about THB200-THB250 million annually on asset maintenance at Vejthani Hospital with minimal additional investment in the new psychiatric hospital. In addition, VTN is planning to build a new general hospital in greater Bangkok, with a project cost of about THB3 billion, with development slated for the 2025-2027 period. The plan is to acquire land this year and commence construction in 2025, with funding to be sourced primarily from internal cash flow, supplemented by capital injections from a partner, and potentially some debt financing. We expect VTN's leverage ratio to remain low, with a debt to EBITDA ratio below 0.5 times, over the next three years.

Over a longer horizon, the company is exploring the feasibility of a new tertiary care hospital project in Bangkok with project cost of about THB5.5 billion. The company plans to invest after completing the general hospital project. With this new investment, depending on the actual timeline of the development, earning's growth, and future dividend policy, leverage ratio could rise significantly. However, we expect the company will be able to manage to keep its debt to EBITDA ratio well below 2 times.

#### **Adequate liquidity**

We assess VTN's liquidity to be adequate over the next 12 months. VTN's primary sources of funds comprise cash and cash equivalents of THB1.2 billion at the end of December 2023 and projected funds from operations (FFO) of about THB980 million in 2024. Funds will be used for capital expenditures and scheduled debt repayments. VTN has about THB315 million in long-term debt payment obligations maturing in 2024. The company's investment budget for 2024 is around THB1.1 billion.

#### **Debt structure**

As of December 2023, VTN's total consolidated interest-bearing debt, excluding lease liability, was about THB1 billion. Around 69% of VTN's debts were priority debts, including debts at the subsidiary level and secured bank loans. As the ratio exceeded our 50% priority debt threshold, we view that VTN's unsecured creditors are significantly disadvantaged to priority debt holders with respect to claim against the company's assets.

#### **BASE-CASE ASSUMPTIONS**

TRIS Rating's base-case assumptions for VTN's operations in 2024-2026 are as follows:

- Revenues to increase by 5%-10% per annum over the next three years.
- EBITDA margin at 31%-32%.
- Capital spending of THB1.1-THB1.8 billion per annum.

#### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that VTN will maintain its market position in the medical tourism segment and continue delivering sound financial results. We expect VTN to continue its conservative investment strategy and maintain a healthy financial position in line with our forecasts.

**RATING SENSITIVITIES**

The ratings and/or outlook could be revised downward if VTN’s financial position and operating performance deteriorate significantly, or any debt-financed investments substantially weaken the company’s balance sheet, with its debt to EBITDA ratio approaching 2 times over an extended period. A rating upgrade is unlikely in the near term.

**COMPANY OVERVIEW**

VTN was established in 1990 and became a public company in 1993. Vejthani Hospital commenced operation in 1994. As of March 2024, the major shareholder of VTN was the Souksakit family with a combined shareholding of 44.4%.

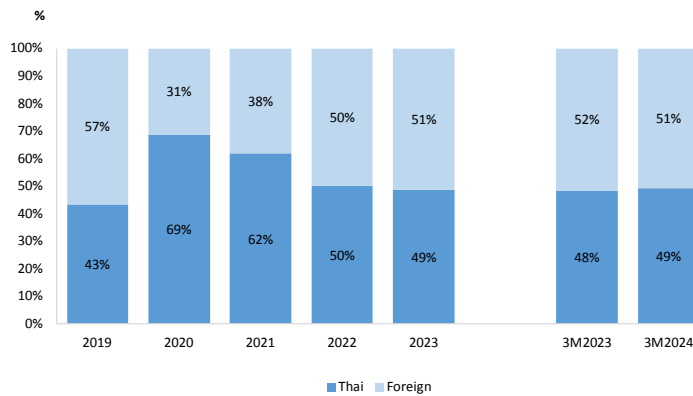
The company is one of the premium private healthcare providers in Thailand, targeting local patients in the middle- to high-income segments and international patients. Vejthani Hospital has a service capacity of 193 inpatient beds. The hospital delivers healthcare services spanning tertiary, specialized treatment, and complex medical care levels.

VTN recently opened a new specialized hospital, BMHH in the greater Bangkok area. The hospital was opened in August 2023. VTN holds a 55.94% interest in BMHH.

The company’s total consolidated revenue was THB3.5 billion in 2023. Revenue from foreign patients accounted for 50% of its total revenues. Revenue from the inpatient department (IPD) contributed 52% of the total; the remainder came from the outpatient department (OPD). In 2023, self-pay patients made up 55% of its patient revenue, followed by patients covered by health insurance (29%), and government-contracted patients (16%).

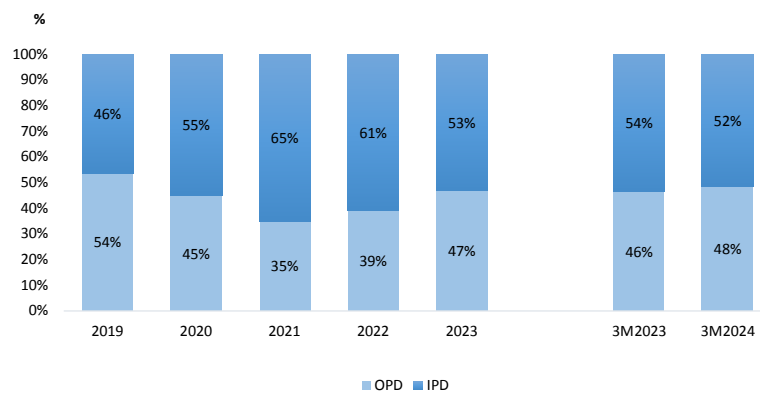
**KEY OPERATING PERFORMANCE**

**Chart 1: Vejthani Hospital’s Revenue Contribution by Nationality**



Sources: VTN

**Chart 2: Vejthani Hospital’s Revenue Contribution by Service Type**



Sources: VTN

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Mil. THB*

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	3,456	3,161	2,150	1,814	2,764
Earnings before interest and taxes (EBIT)	850	762	345	103	443
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,104	988	544	298	651
Funds from operations (FFO)	898	807	447	253	540
Adjusted interest expense	40	37	44	35	34
Capital expenditures	518	353	473	386	389
Total assets	5,461	4,715	3,816	3,797	3,395
Adjusted debt	17	228	696	582	500
Adjusted equity	3,491	2,972	2,179	1,998	2,017
<b>Adjusted Ratios</b>					
EBITDA margin (%)	31.9	31.3	25.3	16.4	23.6
Pretax return on permanent capital (%)	19.6	21.0	10.3	3.3	17.4
EBITDA interest coverage (times)	27.4	26.4	12.3	8.6	19.2
Debt to EBITDA (times)	0.0	0.2	1.3	2.0	0.8
FFO to debt (%)	5,134.5	353.9	64.1	43.4	108.1
Debt to capitalization (%)	0.5	7.1	24.2	22.6	19.9

\* Consolidated financial statements

**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

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**Vejthani PLC (VTN)**

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<b>Company Rating:</b>	BBB+
<b>Rating Outlook:</b>	Stable

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