

BANGKOK DUSIT MEDICAL SERVICES PLC

 No. 174/2019
 24 October 2019

CORPORATES

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

Last Review Date: 24/10/18

Company Rating History:

Date	Rating	Outlook/Alert
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 upgrades the company rating on Bangkok Dusit Medical Services PLC (BDMS) and the ratings on BDMS's senior unsecured debentures to "AA" from "AA-", with a "stable" outlook. The upgrades reflect BDMS's improved capital structure, supported by its faster-than-expected debt reduction efforts and larger equity base, while maintaining sound operating performance and strong cash flow.

BDMS's ratings continue to reflect its robust competitive position in the Thai healthcare service industry, with an extensive network of hospitals and strong franchise of its hospital brands. The ratings also take into consideration the intense competition from local and international healthcare service providers and the slowdown in both the domestic and global economies, which could lead to lower growth prospect.

KEY RATING CONSIDERATIONS

Deleveraging strengthens financial profile

TRIS Rating expects BDMS's financial profile to remain strong over the next three years. BDMS's ratio of net debt to earnings before interest, tax, depreciation and amortization (EBITDA) declined to 1.51 times as of June 2019, from 2.11 times in 2018. The lower debt to EBITDA ratio is supported by increasing earning capacity of both newly completed and well-established hospitals in its portfolio and its faster-than-expected debt reduction efforts.

BDMS's EBITDA rose to about Bt18.5 billion in 2018, up from Bt16.7 billion in 2017. The EBITDA for the first six months of 2019 was Bt9.05 billion. Its debt level also dropped significantly to Bt32.2 billion as of June 2019 from around Bt40.0 billion as of December 2018. The company prepaid around Bt8 billion of short-term and long-term bank loans, using the proceeds received from the disposal of its equity investment in Ramkhamhaeng Hospital PLC (RAM) in February 2019. In addition, the conversion of BDMS's convertible bonds of Bt8.44 billion also helped bolster the equity base. BDMS's equity base increased to Bt80.6 billion as of June 2019, up from Bt73.4 billion at the end of 2018. As a result, the total debt to capitalization ratio improved to 25.26% at the end of June 2019, from 34.71%-36.29% during 2017-2018.

Going forward, BDMS's debt is expected to range between Bt29-Bt33 billion during the next three years. As the company's target expansion plan will be completed by the end of 2020, most of its future capital expenditures will be mainly for maintenance capital expenditures of Bt5.9-Bt6.4 billion per year, Bt0.9 billion for expansion of a green-field project in Jomthian, Chonburi Province, plus funds needed for capacity expansion at its existing hospitals. With its strong cash flow, BDMS is expected to mostly finance the capital expenditures from operating cash flow.

The largest private hospital operator with extensive network nationwide

BDMS has the largest hospital referral network in Thailand, covering 48 hospitals in several locations nationwide. Its extensive hospital network upcountry helps reduce reliance on its flagship hospitals in Bangkok and helps diversify the sources of income. The revenue contribution from Bangkok Hospital at Headquarters was 17% of total patient revenue in 2018, gradually declining from 22% in 2015. In addition, the investment in green-field hospitals upcountry becomes fruitful. In the first half of 2019, Bangkok Hospital Chiangmai, Samitvej Chonburi Hospital, and Royal Phnom Penh

Hospital posted very strong growth of revenue, growing by 15%, 25%, and 36% year-on-year (y-o-y), respectively.

BDMS also provides a comprehensive array of healthcare services spanning all levels of care from preventive care to specialty treatment. The company upgraded 10 major hospitals to be "Centers of Excellence" (COEs), equipped with more advanced healthcare technology, to undertake more complex cases. TRIS Rating believes the upgrades of key hospitals and the offering of specialized healthcare treatments will bring in more international patients and high-income Thai customers with high intensity of care. In 2018, the company launched "BDMS Wellness Clinic", which provides preventive healthcare services. In June 2019, the company opened "Movenpick BDMS Wellness Resort Bangkok", a 290-room hotel situated next to the BDMS Wellness Clinic. This resort will coordinate with BDMS Wellness Clinic in providing in-house personalized wellness program and promote prevention and lifestyle improvement.

As of June 2019, BDMS had service capacity of 6,032 inpatient beds, or about 17% of the total number of private hospital beds in Thailand. This number is very large, compared with the average number of inpatient beds in the Thai hospitals, at about 100 inpatient beds per hospital. In addition, the company has the largest pool of physicians and nurses in the industry. Currently, BDMS has about 12,000 physicians and 8,000 full-time registered nurses across its network of hospitals. Given the extensive network and diverse range of healthcare services provided by the company, BDMS should be able to maintain its very strong market position and solid competitive edge over peers in the short to medium term.

Strong brand franchises with various customer segments help support revenue growth

BDMS has five well-established brands in Thailand: "Bangkok Hospital", "Samitivej Hospital", "BNH Hospital", "Phyathai Hospital", and "Paolo Hospital". Currently, 15 hospitals and one clinic in BDMS's hospital network are accredited by the Joint Commission International (JCI) and widely accepted at the international level and among Thai patients. The Bangkok, Samitivej, and BNH brands target upper middle- to high-income patients and international patients. The Paolo and Phyathai brands target middle- to high-income patients and patients on social security scheme. About 30% of BDMS's total revenue is derived from foreign patients.

Despite the slowdown of the global economy and the Baht appreciation, the number of foreign outpatients continues to rise. Foreign outpatients per day increased steadily to 4,114 visits in the first half of 2019, from 4,010 visits in 2018 and 3,763 visits in 2017. The average number of foreign inpatients per day was 709 patients for the first six months of 2019, increasing from 636 patients in 2018 and 599 patients in 2017. Revenues from patients from Cambodia, Oman, and the United Arab Emirates (UAE) posted strong growths in the first six months of 2019, growing by 22%, 82%, and 94% y-o-y, respectively. The number of Thai outpatients per day also increased steadily to 25,433 visits in the first half of 2019, from 25,022 visits in 2018. However, the number of Thai inpatients per day in the first half of 2019 was 3,294 patients, down by 1% from the same period last year.

TRIS Rating's base-case forecast assumes BDMS's revenues to grow around 5% annually over the next three years. The growth drivers will be a rise in patient volume from both new and existing hospitals and increase in revenue intensity. The company's increasing patient revenues in health insurance segment will also help support the growth in the short to medium term. For the first six months of 2019, revenue from patients with health insurance accounted for 31% of BDMS's total patient revenue, up from 28% in 2018 and 26% in 2017. BDMS's operating margin in 2018 was 22.6%, slightly higher than the average profit margin of the Stock Exchange of Thailand (SET)-listed peers at about 20%. The operating margin in the first six months of 2019 dropped to 21.4%, owing to the soft global and domestic economy, higher fixed operating costs, and implementation of the new Thai severance law. TRIS Rating forecasts BDMS's operating margins to stay at about 20% during the next three years, reflecting lower profit margins of newly added hospitals and the Movenpick BDMS Wellness Resort Bangkok.

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 international patients will have to compete with not only the Thai private hospitals but also hospitals in other countries, particularly 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 two 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.

No significant impact from drug price control

On 22 January 2019, the Cabinet approved the Commerce Ministry's proposal to put medicine on the state price control list. All private hospitals must submit prices and costs to the Department of Internal Trade (DIT). Prices must be shown on hospitals' websites or via quick response (QR) codes. Besides, private hospitals have to inform DIT before adjusting medical prices. Those who fail to comply with the rule will face penalties according to the 1999 Prices of Goods and Services Act. In addition, private hospitals have to provide prescriptions when patients ask to buy medicines outside the hospital. BDMS views that these two measures will not significantly impact its revenues from medicines as most patients still purchase medicines from the hospital. The company believes that its higher prices reflect a better quality of medicines storage conditions than general drugstores. In addition, the company can track and recall medicines should there is any problem with the medicines.

Adequate liquidity

We assess BDMS's liquidity to be adequate. Over the next 12-24 months, sources of funds comprised cash and cash equivalents of Bt10.46 billion at the end of June 2019. Funds from operations (FFO) are forecast at Bt14.0-Bt16.0 billion per annum over the next three years. Uses of funds are BDMS's planned capital expenditures, estimated at about Bt9.0-Bt10.0 billion per annum. About Bt3.09 billion in long-term debts will come due in the second half of 2019, while about Bt5.19 billion in long-term debts and debentures will come due in 2020. Dividend payments are forecast to be around Bt5.5-Bt6.0 billion per annum during the next three years. BDMS also has financial flexibility in its investment in Bumrungrad Hospital PLC, of which the market value was Bt22.16 billion as of 15 October 2019.

The company has to comply with two key financial ratio covenants on its bonds and bank loans, the interest-bearing debt to equity ratio and the net debt to EBITDA ratio. The interest-bearing debt to equity ratio must stay below 1.75 times and the net debt to EBITDA ratio must stay below 3.25 times. At the end of June 2019, BDMS was in compliance with the key covenants. The ratios were 0.4 times and 1.5 times, respectively. Based on BDMS's strong financial profile, TRIS Rating believes that the company should have no problem complying with the key financial covenants.

BASE-CASE ASSUMPTIONS

- Revenues should grow at around 5% per annum over the next three years.
- Operating margin is forecast to stay at about 20% per annum during 2019-2022.
- Total capital spending to be about Bt10 billion per annum, or around Bt40 billion in aggregate during 2019-2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BDMS will maintain its leading position in the private hospital market and continue delivering sound financial results.

RATING SENSITIVITIES

The ratings of BDMS could be under downward pressure if BDMS makes any aggressive debt-funded investments and/or acquisitions that results in the debt to EBITDA ratio staying over 2.0 times, or the FFO to total debt ratio below 40% for a sustained period. The potential for a rating upgrade is limited in the medium term.

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 2019, the major shareholder of BDMS was Dr. Prasert Prasarttong-Osoth and family, with a shareholding of 22.0%.

BDMS is the largest private hospital operator in Thailand, owning 48 hospitals as of August 2019. 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 Phythai 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 290-room hotel.

The company's total operating revenue was Bt79.33 billion in 2018 and Bt40.41 billion for the first six months of 2019. Patient revenue contributed about 95% of total operating revenue. Revenues from the inpatient department (IPD) contributed 55%; the remainder came from outpatients. About 68% of total patient revenue is from Thai patients. For the first six months of 2019, self-pay patients made up 54% of patient revenue, followed by patients covered by health insurance (31%) and company-contracted patients (9%).

KEY OPERATING PERFORMANCE
Table 1: Hospitals in BDMS's Portfolio as of Aug 2019

Hospital	Abbreviation	Ownership (%)
1. Bangkok Hospital		100.0
2. Bangkok Heart Hospital	BHQ *	100.0
3. Wattanosoth Hospital		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 Chantaburi	BCH	99.7
13. Bangkok Hospital Trat	BTH *	99.8
14. Bangkok Hospital Chiangmai	BCM *	100.0
15. Bangkok Hospital Ratchasrima	BKH	91.4
16. Bangkok Hospital Pakchong	BHP	91.4
17. Bangkok Hospital Udon	BUD	100.0
18. Bangkok Hospital Phisanulok	BPL	100.0
19. Bangkok Hospital KhonKaen	BKH	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 Siroj	BSI *	100.0
26. Samitivej Sukhumvit Hospital	SVH *	95.8
27. Samitivej Srinakarin Hospital	SNH *	95.8
28. Samitivej Sriracha Hospital**	SSH *	70.1
29. Samitivej Thonburi Hospital	STH	63.5
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	100.0
34. Phyathai 2 Hospital***	PT2 *	99.2
35. Phyathai 3 Hospital***	PT3	98.2
36. Phyathai Sriracha Hospital***	PTS	75.1
37. Phyathai Nawamin Hospital	PTN	99.8
38. Paolo Paholyothin Hospital	PLP	100.0
39. Paolo Samutprakarn Hospital	PLS	93.6
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	44.5
45. Sri Rayong Hospital	SRH	100.0
46. Dibuk Hospital	DBK	99.7
47. Royal Phnom Penh Hospital	RPH *	100.0
48. Royal Angkor International Hospital	RAH	80.0

Source: BDMS

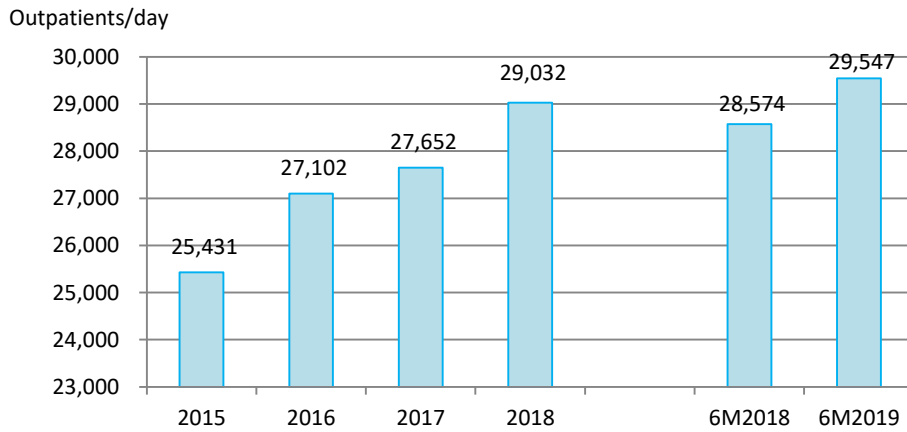
* Hospitals achieved Joint Commission International accreditation

** Indirect shareholding through Samitivej PLC

*** Indirect shareholding through Prasit Patana PLC (PPCL), in which BDMS owns 98.59%

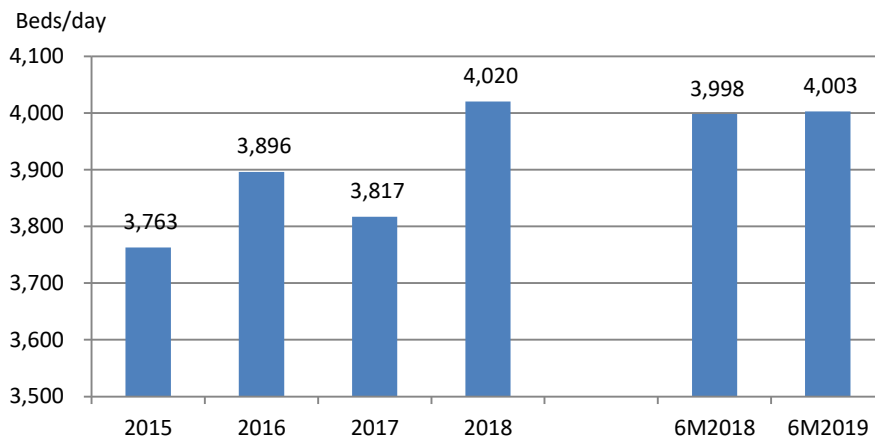
**** Indirect shareholding through Bangkok Hospital Sanamchan Co., Ltd.

Chart 1: Outpatient Visits per Day



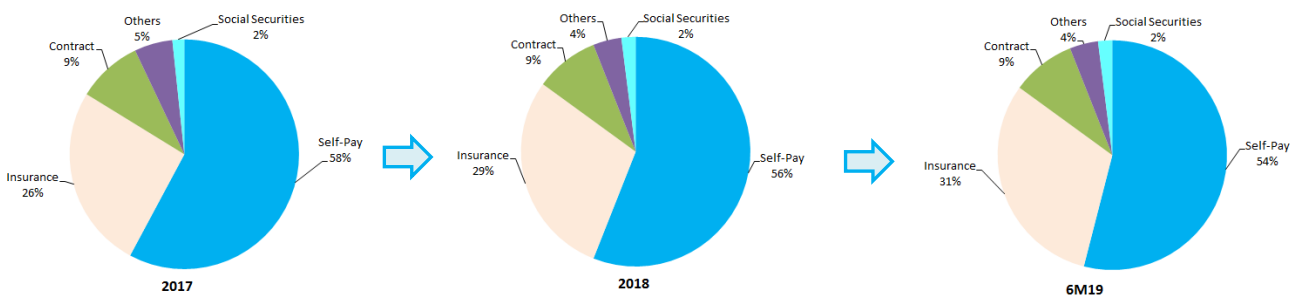
Source: BDMS

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: Bt million

	Jan-Jun 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	40,407	79,333	72,772	68,844	63,633
Operating income	8,645	17,957	16,087	15,315	14,693
Earnings before interest and taxes (EBIT)	6,097	13,746	11,955	11,508	11,302
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	9,048	18,528	16,652	15,874	15,557
Funds from operations (FFO)	5,856	14,429	12,392	12,929	12,381
Adjusted interest expense	622	1,359	1,696	1,023	1,281
Capital expenditures	4,148	7,700	15,605	8,981	6,342
Total assets	134,354	133,499	122,627	107,015	102,335
Adjusted debt	27,238	39,036	37,528	30,817	27,869
Adjusted equity	80,603	73,438	65,871	58,305	54,997
Adjusted Ratios					
Operating income as % of total operating revenues (%)	21.40	22.63	22.11	22.25	23.09
Pretax return on permanent capital (%)	11.30	12.11	11.79	12.63	13.16
EBITDA interest coverage (times)	14.55	13.63	9.82	15.52	12.14
Debt to EBITDA (times)	1.51	2.11	2.25	1.94	1.79
FFO to debt (%)	46.09	36.96	33.02	41.95	44.43
Debt to capitalization (%)	25.26	34.71	36.29	34.58	33.63

RELATED CRITERIA

- 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:	
BDMS202A: Bt3,000 million senior unsecured debentures due 2020	AA
BDMS222A: Bt2,500 million senior unsecured debentures due 2022	AA
BDMS233A: Bt4,000 million senior unsecured debentures due 2023	AA
BDMS242A: Bt1,500 million senior unsecured debentures due 2024	AA
BDMS256A: Bt2,000 million senior unsecured debentures due 2025	AA
BDMS266A: Bt3,000 million senior unsecured debentures due 2026	AA
Rating Outlook:	Stable

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