TRIS RATING

CreditUpdate เครดิตวาระ

News for Investors

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Bangkok Dusit Medical Services Public Company Limited

Company Rating:	A
Issue Ratings:	
BGH113A: Bt3,000 million senior debentures due 2011	A
BGH133A: Bt2,000 million senior debentures due 2013	A
BGH146A: Bt2,000 million senior debentures due 2014	A
BGH166A: Bt1,000 million senior debentures due 2016	A
Up to Bt2,500 million senior debentures due within 2015	A
Rating Outlook:	Positive

Rating History:	**Company Rating**	**Issue Rating**	
		Secured	**Unsecured**
17 Dec 2010	A/Positive	-	A
11 Feb 2008	A/Stable	-	A

Rating Rationale

TRIS Rating affirms the company rating of Bangkok Dusit Medical Services PLC (BGH) and the ratings of BGH's senior debentures at "A". At the same time, TRIS Rating assigns the rating of "A" to BGH's proposed issue of up to Bt2,500 million in senior debentures. The proceeds from the new debentures will be used for debt repayment and as working capital. The ratings reflect BGH's leading position as the largest private hospital operator in Thailand, strong growth in patient volume, capable physicians and an experienced management team, and high quality service. The ratings also take into consideration BGH's solid franchise network under the Bangkok Hospital, Samitivej Hospital, and BNH Hospital brands. These strengths are partially constrained by concerns over future leverage levels due to continuing domestic and international expansions, the relatively low returns on permanent capital, increasing competition in healthcare services from healthcare providers in other Asian countries and BGH's ability to smoothly manage its newly acquired hospitals. In addition, the ratings have incorporated the investment in 46,116,400 ordinary shares or 6.32% of the total issued and paid-up capital of Bumrungrad Hospital PLC (BH) and 35,000,000 units of non-voting depository receipts (NVDR) or 4.79% of the total issued and paid-up capital of BH.

BGH was established in 1969 to run a private hospital named Bangkok Hospital. BGH has grown dramatically through acquisitions since 2004. BGH purchased Samitivej PLC, BNH Medical Centre Co., Ltd., and several hospitals in major provinces of Thailand, including Bangkok Pattaya Hospital Co., Ltd., Bangkok Rayong Hospital Co., Ltd., Bangkok Phuket Hospital Co., Ltd., Bangkok Hadyai Hospital Co., Ltd., and Bangkok Ratchasima Hospital Co., Ltd. In addition, the company also invested in two hospitals in Cambodia. Currently, the BGH Group consists of 19 hospitals, with a total of 2,992 registered beds, across these hospital brands: Bangkok Hospital, Samitivej Hospital, BNH Hospital, and international hospitals under the Royal International Hospital brand. BGH announced on 14 December 2010 that it would merge with Health Network PLC (HNC), the major shareholder of the Phyathai Hospital Group and the Paolo Memorial Hospital Group. After merging with HNC, BGH's competitive position will be enhanced as the company will operate 27 hospitals with 4,639 registered beds since hospitals under the Phyathai Hospital and Paolo Hospital brands will be added to BGH's portfolio.

BGH's revenue from hospital operations grew at a compound annual growth rate (CAGR) of 20% during 2005-2009. For the first nine months of 2010, the company reported total revenues from hospital operations of Bt17,529 million, up by 9.5% from the same period a year earlier. The growth came because of growth in patient volume both local and foreign patients volume and rises in inpatient and outpatient. For the first nine months of 2010, outpatient visits per day was 10,226 persons or a rise of 3% from the same period of the previous year. Over the same time period, the average daily census increased by 9% to 1,523 patients. The average length of stay, however, declined slightly from 2.95 days in 2009 to 2.9 days in the first nine months of 2010. During the past three years, 54%-56% of patient revenue came from inpatients; the remainder came from outpatients. In terms of contribution, the revenue contribution from international patients was maintained at 35%-36% of total patient revenue from 2007 through the first nine months of 2010.

BGH's capital structure has gradually improved during the past three years as cash flow from operations was stronger and capital expenditures fell during 2008-2009. The debt to capitalization ratio declined from 54.5% in 2006 to 45.4% in 2009 and to 43.4% at the end of September 2010. The earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio increased, rising from 7.06 times in 2006 to 8.19 times in 2009 and 9.93 times for the first nine months of 2010. Most debts are denominated in Thai baht with fixed interest rates. The company has very low exposure to interest rate risk or foreign exchange risk. The profitability of BGH is relatively stable and comparable with its peers. Operating income as a percentage of sales was sustained at 22%-23% from 2006 through the first nine months of 2010.

After merging with HNC, BGH's business profile is expected to strengthen while the financial ratios for profitability will not change significantly. Operating income as a percentage of sales is expected to remain at the current level since the profit margin of the hospitals under the Phyathai Hospital and Paolo Hospital brands are comparable to the hospitals already owned by BGH. The company's relatively large asset base will keep the pretax return on permanent capital lower than its peers. The debt to capitalization ratio will not significantly deteriorate from its current level since the merging with HNC will be completed through a share swap. In addition, the funding of investment in BH shares came mainly from its operating cash flow. Thus, the debt to capitalization is expected to be lower than 50%.

Rating Outlook

The "positive" outlook reflects the improving operating performance and financial profile of BGH. BGH's ratings could be upgraded if the company can keep the operations of each hospital under control and successfully integrate the nearly-merged hospitals of the HNC Group. Alternatively, any deterioration in financial performance or a higher-than-expected rise in leverage would negatively impact its ratings or outlook.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Sep ** 2010	--------------- Year Ended 31 December ----------------- 2009	2008	2007	2006	2005
Sales (revenues from hospital only)	17,529	21,597	21,188	18,432	15,578	10,254
Gross interest expense	460	641	647	688	546	276
Net income from operations	1,803	1,725	1,662	1,244	1,323	832
Funds from operations (FFO)	3,309	3,999	3,893	3,351	2,987	1,767
Capital expenditures	869	1,496	1,976	2,998	3,650	2,728
Total assets	31,257	30,359	27,931	26,232	24,934	17,677
Total debt	11,990	12,256	11,440	11,385	11,959	7,444
Shareholder's equity	15,622	14,747	12,988	11,710	9,984	8,418
Operating income before depreciation and amortization as % of sales	22.89	21.63	21.61	22.46	22.29	18.90
Pretax return on permanent capital (%)	10.85**	11.56	12.84	11.13	12.25	9.26
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	9.93	8.19	8.07	6.69	7.06	8.73
FFO/total debt (%)	27.60**	32.63	34.04	28.52	24.98	23.74
Total debt/capitalization (%)	43.42	45.39	46.83	49.30	54.50	46.93

* *Consolidated financial statements*
** *Non-annualized*

Rating Symbols and Definitions

TRIS Rating uses eight letter rating symbols for announcing medium- and long-term credit ratings. The ratings range from AAA, the highest rating, to D, the lowest rating. The medium- and long-term debt instrument covers the period of time from one year up. The definitions are:

AAA The highest rating, indicating a company or a debt instrument with smallest degree of credit risk. The company has extremely strong capacity to pay interest and repay principal on time, and is unlikely to be affected by adverse changes in business, economic or other external conditions.

AA The rating indicates a company or a debt instrument with a very low degree of credit risk. The company has very strong capacity to pay interest and repay principal on time, but is somewhat more susceptible to the adverse changes in business, economic, or other external conditions than AAA rating.

A The rating indicates a company or a debt instrument with a low credit risk. The company has strong capacity to pay interest and repay principal on time, but is more susceptible to adverse changes in business, economic or other external conditions than debt in higher-rated categories.

BBB The rating indicates a company or a debt instrument with moderate credit risk. The company has adequate capacity to pay interest and repay principal on time, but is more vulnerable to adverse changes in business, economic or other external conditions and is more likely to have a weakened capacity to pay interest and repay principal than debt in higher-rated categories.

BB The rating indicates a company or a debt instrument with a high credit risk. The company has less than moderate capacity to pay interest and repay principal on time, and can be significantly affected by adverse changes in business, economic or other external conditions, leading to inadequate capacity to pay interest and repay principal.

B The rating indicates a company or a debt instrument with a very high credit risk. The company has low capacity to pay interest and repay principal on time. Adverse changes in business, economic or other external conditions could lead to inability or unwillingness to pay interest and repay principal.

C The rating indicates a company or a debt instrument with the highest risk of default. The company has a significant inability to pay interest and repay principal on time, and is dependent upon favourable business, economic or other external conditions to meet its obligations.

D The rating for a company or a debt instrument for which payment is in default.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

TRIS Rating's short-term ratings focus entirely on the likelihood of default and do not focus on recovery in the event of default. Each of TRIS Rating's short-term debt instrument covers the period of not more than one year.The symbols and definitions for short-term ratings are as follows:

T1 Issuer has strong market position, wide margin of financial protection, appropriate liquidity and other measures of superior investor protection. Issuer designated with a "+" has a higher degree of these protections.
T2 Issuer has secure market position, sound financial fundamentals and satisfactory ability to repay short-term obligations.
T3 Issuer has acceptable capacity for meeting its short-term obligations.
T4 Issuer has weak capacity for meeting its short-term obligations.
D The rating for an issuer for which payment is in default.

All ratings assigned by TRIS Rating are local currency ratings; they reflect the Thai issuers' ability to service their debt obligations, excluding the risk of convertibility of the Thai baht payments into foreign currencies.

TRIS Rating also assigns a **"Rating Outlook"** that reflects the potential direction of a credit rating over the medium to long term. In formulating the outlook, TRIS Rating will consider the prospects for the rated company's industry, as well as business conditions that might have an impact on the fundamental creditworthiness of the company. The rating outlook will be announced in conjunction with the credit rating. In most cases, the outlook of each debt obligation is equal to the outlook assigned to the issuer or the obligor. The categories for *"Rating Outlook"* are as follows:

Positive The rating may be raised.
Stable The rating is not likely to change.
Negative The rating may be lowered.
Developing The rating may be raised, lowered or remain unchanged.

TRIS Rating may announce a **"CreditAlert"** as a part of its monitoring process of a publicly announced credit rating when there is a significant event that TRIS Rating considers to potentially exerting a substantial impact on business or financial profiles of the rated entity. Due to an insufficient data or incomplete developments of the event, such as merger, new investment, capital restructuring, and etc., current credit rating remains unchanged. The announcement aims to forewarn investors to take a more cautious stance in investment decision against debt instruments of the rated entity. CreditAlert report consists of a "Rational" indicating warning reasons, a "CreditAlert Designation", and a current credit rating. Rating Outlook is withheld in the announcement.

CreditAlert Designation illustrates a short-term rating outlook indicative of the characteristics of impacts on the credit rating in one of the three directions (1) *Positive* (2) *Negative* and (3) *Developing.*

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