

BANGKOK DUSIT MEDICAL SERVICES PLC

Announcement no. 831

10 November 2011

Company Rating: A+

Outlook: Stable

New Issue Rating: -

Rating History:

Date	Company	Issue (Secured/ Unsecured)
17/12/10	A/Pos	-/A
11/02/08	A/Sta	-/A

Rating Rationale

TRIS Rating upgrades the company and issue ratings of Bangkok Dusit Medical Services PLC (BGH) to “A+” from “A”. The upgrade reflects BGH’s enhanced capacity of its facilities and larger franchise network after completing merger with the Phyathai Hospital Group (PPCL) and the Paolo Memorial Hospital Group (Paolo) in the second quarter of 2011. The ratings also take into consideration BGH’s leading position as the largest private hospital operator in Thailand, its experienced management team and capable physicians, high quality services, and good equipments. These strengths are partially offset by the intense competition from both local and international healthcare operators and potential future debt-financing investments.

BGH was established in 1969 to operate a private hospital, Bangkok Hospital. The company is the largest private hospital operator in Thailand and the ASEAN, with a total of 3,929 registered beds. BGH has a strong network of hospital brands. Currently, the company owns 28 hospitals under five well-known and widely-accepted local hospital brands and one international hospital brand. Fourteen hospitals are operated under the Bangkok Hospital brand, three hospitals under the Samitivej Hospital brand, one hospital under the BNH Hospital brand, and two international hospitals under the Royal International Hospital brand. Two other hospital brands, Phyathai Hospital and Paolo Hospital, were added to BGH’s portfolio in April 2011. These strong networks have enlarged BGH’s sources of revenue and its customer base to cover the mid- to high-end segments in various locations. In terms of quality of service, seven hospitals under BGH have achieved Joint Commission International (JCI) accreditation: Bangkok Hospital Medical Center (BMC) (including Bangkok Hospital, Bangkok Heart Hospital, and Wattanosoth Hospital), Samitivej Sukhumvit Hospital (SVH), Samitivej Srinakarin Hospital (SNH), Samitivej Sriracha Hospital (SSH), BNH Hospital (BNH), Bangkok Phuket Hospital (BPK), and Bangkok Pattaya Hospital (BPH).

BGH’s competitive edge is derived from its diversity in terms of services, customer base, and geography. The company has the largest pool of physicians, nurses, and medical staffs, as well as the strongest referral network in Thailand. Several hospitals under its umbrella like BMC, SVH, SNH, BNH, BPH, PPCL, and Paolo have very strong brand equity and achieved strong improvements in earnings during the last few years. In terms of cost management, the company is expected to benefit from its economies of scale through the centralized purchasing of medicines, medical supplies, and key medical equipments. The focus on tertiary care of several hospitals under its umbrella helps improve its earnings and increase the utilization of its equipments and lab services. In addition, the implementation of the cash pooling system efficiently reduced the short-term loan requirement for each hospital and lowered the financing cost of the group.

BGH’s strong business profile has strengthened its operating performance. Revenue from hospital operations in 2010 was Bt23,513 million, growing at a compound annual growth rate (CAGR) of 11% during 2006-2010. Revenue for the first six months of 2011 was Bt15,607 million, up by 39% from the same period of the previous year. The rise was driven by growth in patient revenue and the inclusion of revenues from PPCL and Paolo in the second quarter of 2011. Around 53%-55% of patient revenue came from inpatients; the remainder came from

Contacts:

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Yingyong Chiaravutthi, CFA
yingyong@tris.co.th

Kanokporn Nitnitiphрут
kanokporn@tris.co.th

Suchada Pantu
suchada@tris.co.th

WWW.TRISRATING.COM

outpatients. More than 70% of total revenue is from self-pay patients. BGH's cash flow remains strong and has steadily increased. The operating margin is relatively stable at around 20%-22% during the last few years. Going forward, BGH's profitability will depend on its ability to control costs and improve the utilization of assets and services shared within the group. The cost savings from synergies with PPCL and Paolo may take time to materialize.

BGH's total debts at the end of June 2011 was Bt17,470 million, up from Bt10,751 million at the end of 2010 because BGH assumed the PPCL and Paolo's debt after the acquisitions. However, the debt to capitalization ratio dropped from 39.8% in 2010 to 36.7% at the end of June 2011 due to the larger capital base since the company issued 299.4 million of new shares to swap with PPCL's and Paolo's shares. The company has very low exposure to interest rate risk and foreign exchange risk since most debts are denominated in Thai baht with fixed interest rates. In the future, the company plans more investment in the non-hospital strategic segment, e.g., drugs and medical supplies companies. The investment in a new hospital in Phnom Pehn is pending, due to several unfavorable factors. BGH plans to spend Bt4,200-Bt4,800 million per annum in capital expenditures for the next three years to serve mainly for medical equipments and facilities improvements. Although the company's relatively large asset base kept the pretax return on permanent capital lower than its peers, the improvement in earnings of each hospital will help boost its growth and stabilize its earnings in the future.

The 2011 national flood crisis since September 2011 is expected to have minimal impact on BGH's hospitals operations. The declining outpatient volume in the last quarter of 2011 is partly compensated with increasing number of inpatients referred from other flooded hospitals. The impact from the flood is expected to be temporary. Demand is expected to pick up once the situation resolves. In addition, the company has bought insurance policies covered both the property damage and business interruption for all of hospitals under its umbrella.

Rating Outlook

The "stable" outlook reflects the expectation that BGH will be able to maintain its leading position in both domestic and regional private hospital markets. With the strong levels of brand equity, TRIS Rating expects BGH will continue to attract more patients and maintain its solid operating performance. BGH is expected to keep ample liquidity. Future investments or acquisitions, if any, should be prudently considered in order to keep its financial profile strong.

Bangkok Dusit Medical Services PLC (BGH)

Company Rating:	A+
Issue Ratings:	
BGH133A: Bt2,000 million senior debentures due 2013	A+
BGH143A: Bt1,000 million senior debentures due 2014	A+
BGH146A: Bt2,000 million senior debentures due 2014	A+
BGH153A: Bt2,500 million senior debentures due 2015	A+
BGH166A: Bt1,000 million senior debentures due 2016	A+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Office of the President, Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

© Copyright 2011, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at http://www.trisrating.com/en/rating_information/rating_criteria.html.