

BANGKOK DUSIT MEDICAL SERVICES PLC

No. 12/2013

22 February 2013

Company Rating: A+

Outlook: Stable

New Issue Rating: A+

Rating History:

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

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Rating Rationale

TRIS Rating affirms the company rating of Bangkok Dusit Medical Services PLC (BGH) and the current 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 Bt4,000 million in senior debentures. The proceeds from the new debentures will be used to repay debt. The ratings reflect BGH's leading market position as the largest private hospital operator in Thailand, the enhanced capacity of its facilities, the large franchise network, its experienced management team and capable physicians, high quality services, and good equipment. These strengths are partially offset by the intense competition in the healthcare services industry from both local healthcare providers and from healthcare providers in other ASEAN countries, as well as BGH's potential to make new debt-financed investments in the future.

BGH was established in 1969 to operate Bangkok Hospital, a private hospital. The company is the largest private hospital operator in Thailand with a strong network of hospital brands. BGH owns 29 hospitals, under five well-known and widely-accepted local hospital brands, plus one international hospital brand. Fifteen 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 are the Phyathai Hospital Group (PYT) and the Paolo Memorial Hospital Group (Paolo). BGH has a service capacity of 4,265 inpatient beds, including the newly opened 120-bed Bangkok Udon Hospital. BGH's customer base covers the mid- to high-end segments in various locations. Twelve of BGH's hospitals have achieved Joint Commission International (JCI) accreditation.

BGH's competitive edge is derived from its diversity in terms of services offered, its customer base, and the locations of its hospitals. The company has the largest pool of physicians, nurses, and clinical staff, as well as the strongest referral network in Thailand. BGH's focus on tertiary care helps boost revenue and increase the utilization of medical equipment. Economies of scale, through the pooling lab services and the centralized purchasing of medicines, medical supplies, and key medical equipment, is expected to benefit the company in terms of cost effectiveness. In addition, the implementation of a cash pooling system efficiently reduced the short-term loan requirements for each hospital and lowered the financing cost across the group.

BGH's revenue from hospital operations grew at a compound annual growth rate (CAGR) of 14% during 2007-2011. For the first nine months of 2012, the company reported total revenues from hospital operations of Bt32,655 million, up by 27% from the same period last year. The rise was driven by growth in patient volume, patient acuity, more patient referrals, and the inclusion of revenues from PYT and Paolo. For the first nine months of 2012, the outpatient visits per day was 20,465 persons, or a rise of 5% year on year (y-o-y). Over the same time period, the average daily census (the average number of inpatients per day) rose by 9% y-o-y to 2,905 patients. Around 54%-55% of patient revenue came from inpatients; the remainder came from outpatients. More than 70% of total revenue was from self-pay patients.

CreditUpdate reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

CreditUpdates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

BGH's financial strength is underpinned by its strong operating performance. Funds from operations (FFO) rose from Bt4,372 million in 2010 to Bt6,605 million in 2011 and to Bt6,036 million for the first nine months of 2012. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio has increased, rising from 10 times in 2010 to 17 times for the first nine months of 2012. BGH's total debt has risen during the last two years, jumping from Bt10,751 million at the end of 2010 to Bt19,834 million at the end of September 2012. The rise was mainly due to the inclusion of the debts of PYT and Paolo after BGH acquired these two hospital groups. Total debt also rose because BGH made more investments in new hospitals and affiliated companies. However, the debt to capitalization ratio dropped from 39.8% in 2010 to 34.9% at the end of September 2012 because the equity base grew. The operating margin has been relatively stable at 20%-22% during the last three years.

BGH plans to expand its hospital network in Chiang Mai, Rayong, and Khon Kaen provinces. Recently, Royal Bangkok Healthcare Co., Ltd. (RBH), the company's wholly-owned subsidiary, purchased in 3,741,612 ordinary shares or 24.94% of the total issued shares of Krungdhon Hospital PLC (KDH). The share purchase cost of Bt205.8 million, was funded by internal cash flow. RBH will further make a tender offer to purchase all shares (or about 55% of total issued shares) of KDH during 11 February 2013 to 18 March 2013. The size of the transaction is approximately Bt454 million. These investments will enhance BGH's hospital network across the country and bring larger economies of scale. The company also plans to invest more in the non-hospital segment, e.g., lab services, producing and selling pharmaceuticals, and medical supplies. BGH plans to spend Bt6,200-Bt7,700 million per annum in capital expenditures during 2013-2015. TRIS Rating expects BGH to manage its capital structure carefully in order to keep its financial profile strong.

Rating Outlook

The "stable" outlook reflects the expectation that BGH will be able to maintain its leading position in both the domestic and regional private hospital markets. TRIS Rating expects BGH will continue to attract more patients and maintain its solid operating performance. Future investments or acquisitions, if any, should be prudently considered in order to keep its financial risk low.

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: Bt1,970 million senior debentures due 2014	A+
BGH153A: Bt2,500 million senior debentures due 2015	A+
BGH166A: Bt1,000 million senior debentures due 2016	A+
Up to Bt4,000 million senior debentures due within 2023	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Sep 2012	2011	2010	2009	2008	2007
Sales (revenues from hospital only)	32,655	35,224	23,513	21,597	21,188	18,432
Gross interest expense	634	770	584	641	647	688
Net income from operations	6,531	4,386	2,295	1,725	1,662	1,244
Funds from operations (FFO)	6,036	6,605	4,372	3,999	3,893	3,351
Capital expenditures	4,190	3,560	1,192	1,496	1,976	2,998
Total assets	66,254	58,792	32,197	30,359	27,931	26,232
Total debts	19,834	16,792	10,751	12,256	11,440	11,385
Shareholders' equities	36,960	33,417	16,283	14,747	12,988	11,710
Operating income before depreciation and amortization as % of sales	20.8	20.0	21.5	21.6	21.6	22.5
Pretax return on permanent capital (%)	16.0 **	17.7	13.9	11.6	12.8	11.1
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	16.9	12.4	10.1	8.2	8.1	6.7
FFO/total debt (%)	30.4 **	39.3	40.7	32.6	34.0	28.5
Total debt/capitalization (%)	34.9	33.4	39.8	45.4	46.8	49.3

* Consolidated financial statements

** Non-annualized

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