

BANGKOK DUSIT MEDICAL SERVICES PLC

No. 106/2015

27 October 2015

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

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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Rating Rationale

TRIS Rating affirms the company and senior unsecured debenture ratings of Bangkok Dusit Medical Services PLC (BDMS) at “AA-”. The ratings reflect BDMS’s leading market position as the largest private hospital operator in Thailand, its extensive hospital network, sound operating performance and balance sheet, as well as its experienced management team and capable physicians. These strengths are partially offset by intense competition from local and international providers of healthcare services, the ramp up of BDMS’s new hospitals, and the large capital expenditures needed for BDMS’s expansion plans.

BDMS is the largest private hospital operator in Thailand, operating 41 hospitals nationwide as of June 2015. BDMS focuses mainly on tertiary care treatment, and has expanded its network recently to provide secondary care treatment in selected local areas. The company’s five key hospital brands are well-known among Thais: Bangkok Hospital (19 hospitals), Samitivej Hospital (5), BNH Hospital (1), Phyathai Hospital (5), and Paolo Hospital (3). Two international hospitals of the company in Cambodia are run under the Royal International Hospital brand. The remaining six hospitals carry local brand names. BDMS had a service capacity of 5,534 inpatient beds at the end of June 2015. Its customer base covers the middle income to high-end segments in various locations.

BDMS’s competitive advantage is derived from the diverse range of services it offers, its broad customer base, and the locations of its hospitals. The company has the strongest referral network and the largest pool of physicians and nurses in Thailand. The economies of scale, through the pooling of lab services and the centralized purchasing of medicines and medical equipments, have yielded cost savings for BDMS.

BDMS’s performance is sound, driven by increase in both pricing and patient volume, a rise in patient treatment intensity, and the consolidation of new hospitals. Revenue from hospital operations grew at a compound annual growth rate (CAGR) of 20% from 2009 through 2014. The organic growth of its existing hospitals was around 8% in 2014 and 5% in the first half of 2015. For the first six months of 2015, total revenues from hospital operations were Bt28,962 million, up by 11% year-on-year (y-o-y). About 55% of patient revenue came from inpatients; the remainder came from outpatients. Self-pay patients contributed about 64% of total revenue. For the first six months of 2015, outpatient visits per day amounted to 24,600 persons, or a rise of 8% y-o-y. The average daily census (the average number of inpatients per day) rose by 7% y-o-y to 3,499 patients.

BDMS aims to be one of the key healthcare service providers in the Asia Pacific region. BDMS plans to expand its network to 50 hospitals within 2018, by building some new hospitals and through the acquisitions. During last 12 months until June 2015, BDMS added 11 new hospitals, including Bangkok Hospital Chiangmai, Sanamchan Hospital, Tepakorn Hospital, Royal Phnom Penh Hospital, Bangkok Hospital Khon Kaen, Phuket International Hospital, Bangkok Hospital Chinatown, Muang Petch Hospital, Sri-Rayong Hospital, Dibuk Hospital, and Samitivej Chonburi Hospital. These hospitals added more than 1,700 structure beds to BDMS’s network.

In mid-2015, BDMS acquired Muangraj Hospital, a 125-bed hospital in Ratchaburi province, and consolidated it into the Group network on 1 September

2015. BDMS is now building two new hospitals, Paolo Rangsit Hospital and Jomtien Hospital, which are expected to open in 2016 and 2018, respectively. According to its growth plan, BDMS will add six more hospitals in the certain regions of Thailand. The company also acquired a new land plot near its main hospital on the New Petchaburi road for its future expansion. BDMS's strong network will strengthen its competitive position as BDMS will face more competition in the healthcare services industry both in Thailand and abroad.

BDMS's financial profile is supported by its sound operating performance, a rise in cash flow, and ample liquidity. The company's operating margin (operating income before depreciation and amortization as a percentage of revenue) improved from 20.4% in 2013 to 21.5% in 2014 and 21.3% in the first six months of 2015. The improvement was due to the strong and sound earnings from key hospitals and its cost control efforts. Although some of new hospitals are not yet profitable, BDMS is gradually aligning the internal process of these hospitals to its standard level, while simultaneously improving their efficiency. Funds from operations (FFO) improved from Bt9,007 million in 2013 to Bt10,832 million in 2014, and stood at Bt5,807 million for the first six months of 2015. Its liquidity profile is strong, measured by the FFO to total debt ratio of 34.2% in 2014 and 35.9% for the first six months of 2015.

During 2016-2018, TRIS Rating expects BDMS's revenues will grow at 8%-10% per annum, driven by the growth in patient volume and the new hospitals added to BDMS's network. The operating margin is expected to stay around 21%-22%. The operating performances of the new hospitals are expected to improve and turn profitable during the next three years. FFO is projected to range from Bt12,000-Bt14,000 million per annum.

Total debt rose from Bt22,801 million in 2013 to Bt31,144 million as of June 2015 as BDMS expanded its network. However, BDMS could keep the debt to capitalization ratio below 40% during 2012 through the end of June 2015 because of its large capital base and its careful management of capital structure. During 2016-2018, TRIS Rating expects BDMS to make capital expenditures of about Bt27,500 million in total. The total debt to capitalization ratio is expected to stay below 45% despite the inclusion of its planned capital expenditures.

Rating Outlook

The "stable" outlook reflects the expectation that BDMS will maintain its leading position in both the domestic and regional private hospital markets and continue delivering sound operating performance. BDMS is expected to improve the profitability of its new hospitals and successfully integrate these hospitals into its network.

The credit ratings of BDMS could be under downward pressure if BDMS makes any aggressive debt-funded investments or if BDMS's profitability deteriorates for a prolonged period of time. The ratings could be revised upward should its financial profile improve significantly from the current level.

Bangkok Dusit Medical Services PLC (BDMS)

Company Rating:	AA-
Issue Ratings:	
BDMS166A: Bt1,000 million senior unsecured debentures due 2016	AA-
BDMS233A: Bt4,000 million senior unsecured debentures due 2023	AA-
BDMS256A: Bt2,000 million senior unsecured debentures due 2025	AA-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Jun 2015	2014	2013	2012	2011	2010
Revenues from sales and services	30,210	56,054	50,615	45,478	36,234	23,734
Gross interest expense	561	972	957	849	770	584
Net income from operations	3,780	7,394	6,113	6,142	3,907	2,295
Funds from operations (FFO)	5,807	10,832	9,007	8,819	6,772	4,436
Capital expenditures	3,106	7,798	7,344	5,791	3,560	1,192
Total assets	93,996	93,370	76,399	68,461	58,792	32,197
Total debts	31,144	31,673	22,801	19,916	16,792	10,751
Shareholders' equities	49,314	48,998	42,644	38,387	33,417	16,283
Operating income before depreciation and amortization as % of sales	21.3	21.5	20.4	22.5	22.2	22.2
Pretax return on permanent capital (%)	14.3**	14.1	14.1	16.3	16.5	13.9
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	13.4	14.4	12.5	13.9	11.8	10.1
FFO/total debt (%)	35.9**	34.2	39.5	44.3	40.3	41.3
Total debt/capitalization (%)	38.7	39.3	34.8	34.2	33.4	39.8

* Consolidated financial statements

** Annualized with trailing 12 months

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