

BANGKOK DUSIT MEDICAL SERVICES PLC

No. 28/2016

20 June 2016

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 outstanding senior unsecured debenture ratings of Bangkok Dusit Medical Services PLC (BDMS) at "AA-". At the same time, TRIS Rating assigns the rating of "AA-" to BDMS's proposed issue of up to Bt3,000 million in senior unsecured debentures. The new issue rating replaces the issue rating previously assigned on 15 June 2016 to a bond issue of up to Bt2,000 million, following BDMS's request to increase the issue size to up to Bt3,000 million. The proceeds from the new debentures will be used for general corporate purposes and debt repayment. The ratings reflect BDMS's leading market position as the largest private hospital operator in Thailand, extensive referral network of hospitals, and sound operating performance and healthy balance sheet. BDMS's ratings continue to reflect its experienced management team and capable physicians. These strengths are partially offset by competition from local and international providers of healthcare services and the large capital expenditures BDMS will make over the next three years.

BDMS is the largest private hospital operator in Thailand, in terms of number of beds and patient revenues. BDMS currently operates 43 hospitals nationwide. The company's five key hospital brands are well known among Thais: Bangkok Hospital (20 hospitals), Samitivej Hospital (5), BNH Hospital (1), Phyathai Hospital (5), and Paolo Hospital (4). BDMS has two international hospitals in Cambodia, running the Royal International Hospital brand. The remaining six hospitals carry Thai local brand names. As of March 2016, BDMS had a service capacity of 5,805 inpatient beds, including the newly opened Paolo Rangsit Hospital. BDMS's customer base covers the middle income to high-end segments at its various locations.

BDMS's competitive advantage comes from the diverse range of services it offers, its broad customer base, and the locations of its hospitals. The company has the largest pool of physicians and nurses, as well as the strongest referral network in Thailand. BDMS focuses on tertiary care treatment and has expanded in upcountry areas by adding more secondary care hospitals. Tertiary care helps boost patient revenue and increase the utilization of hospital equipment and facilities. BDMS also benefits from economies of scale, as well as synergies the facilities which arise from sharing and functions within the network of hospitals. For example, lab services center are shared and equipment purchases are pooled. These actions have provided cost savings for the company.

BDMS's operating performance is sound, driven by increases in patient volumes and rising prices, a rise in patient treatment intensity, and the consolidation newly-acquired and newly-opened hospitals into its revenue. Revenue from hospital operations grew at a compound annual growth rate (CAGR) of 14% during 2011 through 2015. For the first three months of 2016, revenues from hospital operations reached Bt16,406 million, up by 11% year-on-year (y-o-y). The organic growth of its existing hospitals accounted for 7% points of the 11% y-o-y rise, while the remaining 4% points of growth came from new hospitals. About 55% of patient revenue came from inpatients; the remainder came from outpatients. Self-pay patients contributed about 61% of total revenue. For the first three months of 2016, outpatient visits per day amounted to 27,077 persons, or a

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rise of 10% y-o-y. The average daily census (the average number of inpatients per day) rose by 11% y-o-y to 4,015 patients.

BDMS has expanded its network by investing in greenfield projects and through acquisitions. BDMS aims to be one of the key healthcare service providers in the Asia Pacific region. During the last two years, BDMS opened more than 10 new hospitals in several regions of Thailand. Paolo Rangsit Hospital, a greenfield 150-bed secondary hospital, opened in January 2016. Paolo Rangsit Hospital opened with 59 beds in the first phase, targeting middle income patients in the Rangsit area. BDMS plans to expand its network to about 50 hospitals within 2020. BDMS recently announced its plan to invest around Bt700 million in a greenfield project in Surat Thani province. The hospital is expected to have a 150-bed capacity and will be opened in 2017 with approximately 50 beds in the first phase. The Phoenix project, an expansion of Bangkok Hospital Headquarter (BHQ), is now in the development process. The Phoenix project will provide specialized healthcare treatments such as neurological treatments, spinal treatments, and rehabilitation. BDMS aims to make the BHQ to be one of the top referral hospitals in Asia-Pacific region. The project will cost about Bt4,000 million and will add 200-bed capacity which will be completed by 2018. BDMS's strong network will strengthen its competitive position and enables the company to compete more effectively in the healthcare services industry both in Thailand and abroad.

BDMS's financial profile is supported by its sound operating performance, strong cash flow generation, and ample liquidity. The company's operating margin (operating income before depreciation and amortization as a percentage of revenue) was 21.1% in 2015 and improved to 22.8% for the first three months of 2016. The improvement was due to its strong growth in revenues and efficient cost control. Funds from operations (FFO) rose from Bt10,832 million in 2014 to Bt12,076 million in 2015, and stood at Bt3,780 million for the first three months of 2016. The liquidity profile remained satisfactory, as measured by the FFO to total debt ratio of 40% in 2015 and 41.6% for the first three months of 2016. Total outstanding debt dropped from Bt31,673 million in 2014 to Bt29,657 million at the end of March 2016. BDMS repaid about Bt4,000 million in debt due in 2015. In addition, capital expenditures were covered in part by operating cash flow. As a result, the debt to capitalization ratio was at 33.6% at the end of March 2016, compared with 39% in 2014.

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 at about 21%-22%. The FFO will range from Bt12,000-Bt15,000 million per annum. The FFO to total debt ratio will range from 36%-45% during 2016-2018. TRIS Rating forecasts BDMS will make a total of Bt27,500 million in capital expenditures during 2016-2018. Total debt is expected to rise as BDMS's network continues to expand. However, BDMS is expected to manage its capital structure conservatively and retain sufficient financial liquidity. The debt to capitalization ratio is expected to stay below 45% during 2016-2018.

Rating Outlook

The "stable" outlook reflects the expectation that BDMS will maintain its leading position in the domestic and regional private hospital markets and continue delivering sound operating performance.

The ratings could be revised upward should its financial profile improve significantly from the current level. 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.

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-
Up to Bt3,000 million senior unsecured debentures due within 2026	AA-

Rating Outlook: Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Mar 2016	2015	2014	2013	2012	2011
Revenues from sales and services	17,133	62,857	56,065	50,615	45,478	36,234
Gross interest expense	213	1,136	972	957	849	770
Net income from operations	2,406	7,709	7,394	6,113	6,142	3,907
Funds from operations (FFO)	3,780	12,076	10,832	9,411	8,819	6,772
Capital expenditures	2,363	5,976	7,798	7,344	5,791	3,560
Total assets	103,498	102,335	93,370	76,399	68,461	58,792
Total debts	29,657	29,998	31,673	22,801	19,916	16,792
Shareholders' equities	58,701	56,175	48,998	42,644	38,387	33,417
Operating income before depreciation and amortization as % of sales	22.8	21.1	21.5	20.4	22.5	22.2
Pretax return on permanent capital (%)	13.2 **	13.2	14.1	14.1	16.3	16.5
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	20.7	13.6	14.4	12.5	13.9	11.8
FFO/total debt (%)	41.6 **	40.3	34.2	41.3	44.3	40.3
Total debt/capitalization (%)	33.6	34.8	39.3	34.8	34.2	33.4

* Consolidated financial statements

** Annualized with trailing 12 months

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