

BANGKOK DUSIT MEDICAL SERVICES PLC

No. 123/2016

4 November 2016

Company Rating: AA-

Issue Ratings:

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

Contacts:

 Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

 Jutatip Chitphromphan
jutatip@trisrating.com

 Suchada Pantu, Ph. D.
suchada@trisrating.com
WWW.TRISRATING.COM
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 and solid reputations of its hospital brands, as well as its experienced management team and capable physicians. The ratings also take into consideration its sound operating performance and a moderate financial risk profile. These strengths are partially offset by intense competition from local and international providers of healthcare services and the large capital expenditures needed for BDMS's expansion plans.

BDMS is the largest private hospital operator in Thailand. The company focuses on tertiary care treatment and has expanded its network recently to provide secondary care treatment in selected local areas. 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). Two international hospitals in Cambodia are run under the Royal International Hospital brand. The remaining six hospitals carry local brand names. BDMS had a service capacity of 5,805 inpatient beds at the end of June 2016. Its customer base covers the middle-income to high-end segments in various locations.

BDMS's strong business profile reflects its ability to provide a wide range of services, broad customer base and the locations of its hospitals, as well as the solid reputations of its hospital brands. The company's competitive advantage stems from its extensive referral network and the largest pool of physicians and nurses in Thailand. BDMS also benefits through economies of scale by pooling lab services and the centralized purchasing of medicines and medical equipment.

Revenue from hospital operations in 2015 was Bt60,262 million and Bt31,269 million for the first six months of 2016. Revenue rose by 11% in 2015 and 8% year-on-year (y-o-y) for the first six months of 2016. The rise was driven by an increase in patient volume together with intensity and pricing, plus the consolidation of several new hospitals. The growth in revenues at the existing hospitals, or organic growth, was around 6% each in 2015 and for the first six months of 2016. About 54% of patient revenue came from inpatients; the remainder came from outpatients. The operating margin (operating income before depreciation and amortization as a percentage of revenue) was 21.1% in 2015 and 20.8% for the first six months of 2016. The slight drop was due to a decline in patients from the Middle East countries and a drop in the number of foreign patients visiting hospitals in the southern part of Thailand.

BDMS aims to be one of the key healthcare service providers in the Asia-Pacific region. BDMS has built its hospital network by building new hospitals and acquiring exiting hospitals, targeting to have 50 hospitals in the next few years. The company is now building two new hospitals, Bangkok Hospital Surat and Bangkok Hospital Chiang Rai, which are expected to be opened in 2017 and 2018, respectively. These two hospitals will add 230 new beds in total. The total investment is about Bt1,700 million. In addition, BDMS has land plots in Krabi province and the Khaoyai area, ready sites for new hospitals.

Meanwhile, BDMS is upgrading nine major hospitals in several regions of Thailand and in Cambodia to be "Centers of Excellence" (COE). The upgraded

hospitals will increase sophistication level of care to capture both domestic and foreign patients. The total investment over 5-year period will be nearly Bt3,000 million. BDMS is expanding the Bangkok Hospital Headquarter (BHQ), in a project called the "Phoenix Project". The expansion adds specialized healthcare treatments such as neurological treatments, spinal treatments, and rehabilitation. The project will cost about Bt4,200 million and will add 220 more beds capacity when it is completed in 2018.

In September 2016, BDMS acquired the land and buildings in the NaiLert Park project at a cost of Bt10,800 million. BDMS plans to develop the land and buildings to be a holistic medical service center called "BDMS Wellness Clinic". The budget for renovation and other expenses are around Bt2,000 million. BDMS Wellness Clinic will capture opportunities in two areas where demand is increasing: preventive medicine, and longevity and anti-aging. This project will open in 2017. Recently, BDMS announced to acquire the entire business of Mayo Polyclinic Co., Ltd. (MYPC) via its subsidiary -- Paolo Medic Co., Ltd. (Paolo). The total investment was Bt1,395 million, funded by cash and/or new borrowings. MYPC operates a private hospital called Mayo Hospital which is a 162-bed secondary care hospital, targeting middle-income patients. The transaction is expected to complete by January 2017. Through its horizontal and vertical expansion efforts, capacity is expected to around 7,000 available beds within 2018. BDMS's extensive network will strengthen its competitive position, expand its customer base, and enable the company to compete more effectively in the healthcare services industry.

BDMS's financial risk is moderate, reflecting its sound operating performance, a rise in cash flow, satisfactory liquidity, and moderate use of debt. Funds from operations (FFO) rose from Bt10,832 million in 2014 to Bt12,076 million in 2015, and stood at Bt6,216 million for the first six months of 2016. Liquidity remains sufficient, as measured by the FFO to total debt ratio of 40% in 2015 through the first six months of 2016. Total debt was Bt31,190 million as of June 2016, up from Bt29,998 million in 2015 as BDMS continues to expand its network. However, the debt to capitalization ratio remained below 40% during the last three years and stood at 35.6% as of June 2016, thanks to BDMS's large capital base and strong cash flow.

During the next three years, TRIS Rating forecasts BDMS will deliver a sound operating performance. Revenue is expected to grow by 8%-10% per annum, driven by growth in patient volume and the new hospitals added to the network. The operating margin may be pressured from fixed operation cost, depreciation and amortization charges for new hospitals, and a ramp up of the wellness clinic. However, BDMS is expected to manage its expenditures and continues its cost saving efforts, in order to maintain its operating margin. FFO is projected to be in a range of Bt12,000-Bt15,000 million per annum. TRIS Rating expects BDMS to make capital expenditures of about Bt41,000 million in total during the next three years. The investments will be funded in part by operating cash flow. Despite the heavy investments, the debt to capitalization ratio is expected to stay below 45% during the next three years.

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 financial results.

The credit ratings of BDMS could be under downward pressure if BDMS makes any aggressive debt-funded investments so that its debt to capitalization ratio will stay higher than 45% or the FFO to total debt will stay below 30% on a sustained period. The rating downside case would be triggered 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, leading to the FFO to total debt ratio over 50% on a sustained period.

Bangkok Dusit Medical Services PLC (BDMS)

Company Rating:	AA-
Issue Ratings:	
BDMS233A: Bt4,000 million senior unsecured debentures due 2023	AA-
BDMS256A: Bt2,000 million senior unsecured debentures due 2025	AA-
BDMS266A: Bt3,000 million senior unsecured debentures due 2026	AA-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Jun 2016	2015	2014	2013	2012	2011
Revenues from sales and services	32,632	62,857	56,054	50,615	45,478	36,234
Gross interest expense	393	1,136	972	957	849	770
Net income from operations	4,014	7,709	7,394	6,113	6,142	3,907
Funds from operations (FFO)	6,216	12,076	10,832	9,007	8,819	6,772
Capital expenditures	3,754	5,976	7,798	7,344	5,791	3,560
Total assets	102,142	102,335	93,370	76,399	68,461	58,792
Total debts	31,190	29,998	31,673	22,801	19,916	16,792
Shareholders' equities	56,396	56,175	48,998	42,644	38,387	33,417
Operating income before depreciation and amortization as % of sales	20.8	21.1	21.5	20.4	22.5	22.2
Pretax return on permanent capital (%)	13.3 **	13.2	14.1	14.1	16.3	16.5
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	20.1	13.6	14.4	12.5	13.9	11.8
FFO/total debt (%)	40.0 **	40.3	34.2	39.5	44.3	40.3
Total debt/capitalization (%)	35.6	34.8	39.3	34.8	34.2	33.4

* Consolidated financial statements

** Annualized with trailing 12 months

TRIS Rating Co., Ltd.

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

© Copyright 2016, 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, without the prior written permission of TRIS Rating Co., Ltd. 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.