

BANGKOK DUSIT MEDICAL SERVICES PLC

No. 146/2017

8 November 2017

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

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Rating Rationale

TRIS Rating affirms the company rating and the ratings of senior unsecured debenture of Bangkok Dusit Medical Services PLC (BDMS) at "AA-". The ratings reflect BDMS's strong business profile deriving from its leading market position as the largest private hospital operator in Thailand, the solid reputation of its hospital brands and extensive hospital network, as well as its experienced management team and capable physicians.

The ratings also take into consideration BDMS's sound operating performance and moderate financial risk profile. These strengths are partially offset by intense competition from local and international providers of healthcare services, higher leverage mainly from investment in the BDMS Wellness Clinic, as well as 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 recently expanded its network to provide secondary care treatment in selected local areas. BDMS currently operates 45 hospitals nationwide. The company's five key hospital brands are well-known among Thais: Bangkok Hospital (21 hospitals), Samitivej Hospital (6), BNH Hospital (1), Phyathai Hospital (5), and Paolo Hospital (5). Two international hospitals in Cambodia are run under the Royal International Hospital brand. The remaining five hospitals carry local brand names. BDMS had a service capacity of 5,852 inpatient beds at the end of June 2017. Its customer base covers the middle-income to high-end segments in various locations. Revenue from Thai patients comprised about 70% of the company's total patient revenue, and the remaining 30% came from international patients.

BDMS's strong business profile reflects its ability to provide a wide range of services, its 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 from economies of scale by pooling lab services and the centralized purchasing of medicines and medical equipment.

BDMS continues to strengthen its business position and competitive edge. The company is on track to have 50 hospitals within 2020. 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. BDMS is also expanding the Bangkok Hospital Headquarter (BHQ), in a project called the "Phoenix Project", which will add specialized healthcare treatments such as neurological treatments, spinal treatments, and rehabilitation. In addition, BDMS is launching the BDMS Wellness Clinic, a holistic medical service center capturing opportunities in preventive medicine, longevity, and anti-aging.

BDMS's moderate financial risk profile is underpinned by its sound operating performance, steady cash flow, and moderate leverage. In 2016, BDMS reported an 8% year-on-year (y-o-y) rise in revenue from hospital operations to Bt65,237 million, driven by an increase in patient volume together with intensity and pricing, plus the consolidation of several new hospitals. For the first six months of 2017, revenue from hospital operations rose by 5% y-o-y to Bt32,752 million. The rise was due mainly to an increase in price intensity rather than volume growth. The number of outpatient visits per day was at 26,056 persons, a flat growth from the

same period last year. The average daily census (the average number of inpatients per day) declined by 6% y-o-y to 3,471 patients. The operating margin (operating income before depreciation and amortization as a percentage of revenue) declined slightly from 21.10% in 2016 to 20.52% for the first six months of 2017, due mainly to higher doctor fees and clinical staff expenses as BDMS prepares to upgrade nine hospitals to be COE. Funds from operations (FFO) remained resilient at Bt6,102 million for the first half of 2017.

During 2017-2019, TRIS Rating's base case expects revenue of BDMS to grow at least 5% on average annually, taking into account an expected increase in price intensity as well as volume growth after the completion of several expansion projects. The operating margin is expected to stay around 20%-21%. FFO is projected to range from Bt11,000-Bt13,000 million per annum.

BDMS's leverage and liquidity weakened as debt rose but remained acceptable at the current rating level. Total debt rose from Bt31,897 million at the end of 2016 to Bt41,269 million at the end of June 2017. The rise in debt was mainly from investment in the BDMS Wellness Clinic. The debt to capitalization ratio was 41.18% at the end of June 2017. Debt is expected to stay elevated following BDMS's capital spending plans of about Bt24,500 million in total from the second half of 2017 through 2019. TRIS Rating expects the total debt to capitalization ratio of the company to stay at 38%-41% during 2017-2019. Liquidity weakened as debt rose. FFO to total debt ratio declined from 38.95% in 2016 to 29.44% (annualized with trailing 12 months) for the first six months of 2017. The FFO to total debt ratio is expected to stay between 27%-32% during 2017-2019.

Over the next 24 months, BDMS's liquidity is ample considering the sources and uses of funds. Sources of funds are FFO forecast at Bt11,000-Bt13,000 million per annum and cash and cash equivalents of Bt6,053 million at the end of June 2017. Uses of funds are debt coming due of approximately Bt5,500 million and capital expenditures of around Bt20,000 million in total. BDMS also has dividend payout around 50% of consolidated net profit per annum. BDMS has financial flexibility of its investments in Bumrungrad Hospital PLC and Ramkhamhaeng Hospital PLC, of which the combined market value was Bt45,525 million as of 7 November 2017.

Rating Outlook

The "stable" outlook reflects the expectation that BDMS will maintain its strong business profile and sound operating performance while maintaining a moderate financial risk profile.

The credit ratings of BDMS could be under downward pressure if the company's operating performance significantly deteriorates or BDMS makes any aggressive debt-funded investments so that its debt to capitalization ratio stays above 45% and its FFO to total debt ratio stays below 30% over 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 upgraded should its operating performance and financial profile improve significantly from the current levels.

Bangkok Dusit Medical Services PLC (BDMS)

Company Rating:	AA-
Issue Ratings:	
BDMS202A: Bt3,000 million senior unsecured debentures due 2020	AA-
BDMS222A: Bt2,500 million senior unsecured debentures due 2022	AA-
BDMS233A: Bt4,000 million senior unsecured debentures due 2023	AA-
BDMS242A: Bt1,500 million senior unsecured debentures due 2024	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 2017	2016	2015	2014	2013	2012
Revenues from sales and services	34,118	67,985	62,834	56,054	50,615	45,478
Gross interest expense	772	881	1,136	972	957	849
Net income from operations	2,884	8,187	7,812	7,394	6,113	6,054
Funds from operations (FFO)	5,774	12,477	12,246	10,832	9,007	8,819
Capital expenditures	12,318	9,586	5,976	7,798	7,344	5,791
Total assets	118,088	106,939	102,335	93,370	76,399	68,461
Total debts	41,269	31,897	29,998	31,673	22,801	19,916
Shareholders' equities	61,043	58,305	56,175	48,998	42,644	38,387
Operating income before depreciation and amortization as % of sales	20.52	21.10	22.07	22.21	21.13	23.27
Pretax return on permanent capital (%)	11.49**	12.80	13.28	13.99	13.92	16.07
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	9.91	17.20	13.06	13.61	11.90	13.37
FFO/total debt (%)	28.67**	38.95	40.27	33.99	38.84	42.58
Total debt/capitalization (%)	41.18	36.27	35.73	40.24	35.95	34.82

Note: All are operating lease adjusted ratios

* Consolidated financial statements

** Annualized with trailing 12 months

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