

BANGKOK DUSIT MEDICAL SERVICES PLC

No. 167/2018
24 October 2018

CORPORATES

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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RATIONALE

TRIS Rating affirms the company rating on Bangkok Dusit Medical Services PLC (BDMS) and the ratings on its outstanding senior unsecured debentures at "AA-", with a "stable" outlook. The ratings reflect BDMS's leading market position as the largest operator of private hospitals in Thailand, with an extensive network of hospitals and strong franchise of its hospital brands, supported by its high quality of services and medical staff. The ratings also take into consideration BDMS's sound operating performance, moderate financial risk profile, and exposure to intense competition from local and international healthcare services providers.

KEY RATING CONSIDERATIONS

Largest private hospital operator in Thailand, with extensive network of hospitals

BDMS's strong business profile reflects its leading position in the private hospital segment in Thailand. BDMS has the largest hospital network, covering 45 hospitals nationwide, with a service capacity of 5,996 inpatient beds at the end of June 2018. The company has the largest pool of physicians and nurses in the industry. Based on physician participation, BDMS has more than 11,600 physicians and about 8,000 full-time registered nurses across its network of hospitals.

In 2017, revenue from healthcare services and sales totaled nearly Bt72,000 million, or around 55% of the total amount of revenue reported by all listed healthcare service providers. As another measure of size, BDMS has 16% of the total number of private hospital beds in Thailand and around 5% of total hospital beds in Thailand.

In TRIS Rating's view, BDMS should be able to maintain its strong market position and its solid competitive advantage over peers, given its large size and scale plus diverse range of services and locations. BDMS has a strong ability to provide a comprehensive array of healthcare services spanning all levels and intensity of care.

Strong brand franchises covering middle- to high-end segments

BDMS has five well-established brands in Thailand: Bangkok Hospital, Samitivej Hospital, BNH Hospital, Phyathai Hospital, and Paolo Hospital. Currently, 14 hospitals and one clinic of BDMS's hospital network are accredited by the Joint Commission International (JCI) and widely accepted at the international level. The Bangkok, Samitivej, and BNH brands target upper middle- to high-income patients and international patients. The Paolo and Phyathai brands target middle-to-high income patients and social security patients.

The number of outpatient visits per day increased steadily to 28,574 visits in the first half of 2018, from 21,960 visits in 2013. The average daily census (the average number of inpatients per day) increased to 3,998 patients for the first six months of 2018, from 3,054 patients in 2013. Foreign patient visits accounted for about 14% of total outpatients. Despite an economic slowdown in the Middle East countries, the number of foreign patient visits continues to rise. Foreign patient visits per day increased steadily to 4,062 visits in the first half of 2018, from 2,926 visits in 2013. The company's broad customer base, covering middle-income to high-income patient segments in various locations,

helps maintain the stability of its revenues and profitability.

Moderate financial leverage due to its ongoing expansion

TRIS Rating expects BDMS's financial leverage to gradually decline over the next 2-3 years since the company's target expansion plan will be completed by the end of 2020. TRIS Rating projects BDMS's adjusted debt will range between Bt37,000-Bt40,000 million during the next three years. The adjusted debt to capitalization ratio is projected to fall to around 30%-32% by 2021, from 34.15% at the end of June 2018. The ratings incorporate planned capital expenditures and a dividend payout ratio of not less than 50% of consolidated net profit. The debt to EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio is projected to stay around 2 times within 2021.

Under its target expansion plan, BDMS expects to have 50 hospitals within 2020, making it one of the largest healthcare services providers in the Asia Pacific region. BDMS opened Chiva Transitional Care Hospital in October 2018. The company is now building Bangkok Hospital Chiangrai, targeting residents in Chiang Rai, Phayao, and Nan provinces, and international patients from the southern part of China. BDMS is expanding the Bangkok Hospital Headquarters (BHQ), Bangkok International Hospital, which will add specialized healthcare treatments such as neurological treatments, spinal treatments, and rehabilitation, to capture opportunities from the growing number of international patients. The company has a green-field hospital project in Jomtien, Chonburi province, targeting residents in the eastern region. This project is expected to benefit from the Thai government's Eastern Economic Corridor (EEC) economic development project. The new hospitals and new projects will add about 640 beds, or around 8% of BDMS's existing bed capacity, by 2020.

BDMS opened BDMS Wellness Clinic, a new venture for holistic medical services, preventive care, longevity, and anti-aging, in December of last year. BDMS Wellness Clinic has currently operated four clinics: regenerative, musculoskeletal and sports, dental, and fertility. Four more clinics will be opened within 2018. In addition, BDMS is upgrading 10 major hospitals to be "Centers of Excellence" (COEs). The upgrades mean the hospitals can provide more sophisticated levels of care. TRIS Rating believes BDMS Wellness Clinic and the upgrades of key hospitals will bring in more high-end international and Thai customers with complex treatment and high revenue intensity (income from high intensity of care).

Growing demand for healthcare services, but competition is intense

TRIS Rating expects that demand for healthcare in Thailand will increase as Thailand's population ages. Thailand is becoming an aged society. More people are living longer as they are more health-conscious. As of December 2017, those over the age of 60 accounted for about 15.5% of the total Thai population. The National Economic and Social Development Board (NESDB) estimated that the number of people aged 60 years or higher will increase to 18% in 2020 and 25% in 2030. The rising proportion of the elderly will increase the demand for healthcare services.

TRIS Rating forecasts the number of foreign patients receiving care in the Thai healthcare service industry will increase, tracking the rise in the number of foreign tourist arrivals. BDMS treated 1.31 million foreign patients in 2017, up 4% from 1.26 million in 2016. According to the Department of Tourism, about 25.9 million foreign tourists arrived in Thailand during January to August 2018, up by 10% from the same period last year. The full-year number is forecast at about 38 million. TRIS Rating expects the Chinese tourists traveling for medical treatment in Thailand will increase, particularly for beauty treatments, health check-ups, dental care, and in vitro fertilization (IVF).

Although the above factors mean the bright prospects for the healthcare services industry, the competition in this industry is intense. Private hospitals have to compete with other hospitals in Thailand and with hospitals in other Asian countries, particularly in advanced medical treatment. However, Thailand, being a medical tourism hub in Asia, has strong competitiveness by location, quality of services, and price compared with other countries like Singapore and Malaysia.

Sound operating performance is expected

TRIS Rating's base-case assumes BDMS's revenues will grow by 6%-8% annually over the next three years. The growth drivers will be a rise in patient volume, the new hospitals added to the group, and an increase in revenue intensity. We believe that BDMS will put more effort into expanding its patient base and into offering more complex levels of care. The patients with insurance segment are expected to rise, which will boost patient volume and thus raise the utilization rate of inpatient beds. For the first six months of 2018, the patients with health insurance accounted for 28% of BDMS's total patient revenue, up from 26% as of December 2017. In addition, the COEs are expected to attract more patients because of the higher sophistication of care. However, we forecast BDMS Wellness Clinic may need more time before revenue and profitability begin to rise.

TRIS Rating projects BDMS's operating margins to stay at 22%-23% during the next three years, reflecting cost control efforts, improving bed-utilization, and higher revenue intensity. We expect BDMS to realize more cost efficiency in operations due to economies of scale, high utilization rates, and shared resources.

Adequate liquidity

Liquidity is adequate. During the next 12-24 months, sources of funds should be sufficient to meet financial obligations and planned capital expenditures. Sources of funds comprised cash on hand and cash equivalents of Bt5,651 million at the end of June 2018. Funds from operations (FFO) are forecast at Bt14,000-Bt16,000 million per annum. Uses of funds are BDMS's planned capital expenditures, including maintenance capital expenditures of Bt8,000-Bt10,000 million per annum. Short-term debts stood at Bt1,040 million at the end of June 2018. Long-term debts coming due in the second half of 2018 will be Bt703 million, about Bt4,200 million in 2019, and about Bt5,500 million in 2020. Dividend payments are forecast to be around Bt5,200-Bt5,500 million per annum. BDMS also has financial flexibility in its investments in Bumrungrad Hospital PLC and Ramkhamhaeng Hospital PLC, of which the combined market value was Bt41,059 million as of 12 October 2018.

Two key financial covenants for the bonds and bank loans are the interest-bearing debt to equity ratio and the net debt to EBITDA ratio. The interest-bearing debt to equity ratio must stay below 1.75 times and the net debt to EBITDA ratio must stay below 3.25 times. At the end of 2017, BDMS was in compliance with the key covenants. The ratios were 0.5 times and 1.9 times, respectively. Based on BDMS's conservative financial policy, TRIS Rating believes that it will continue to be in compliance with the key financial covenants.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BDMS will maintain its leading position in the private hospital market and continue delivering sound financial results.

RATING SENSITIVITIES

The ratings of BDMS could be under downward pressure if BDMS makes any aggressive debt-funded investments that push the debt to capitalization ratio above 45% or drive the FFO to total debt ratio below 30% for a sustained period. A rating downside case would be triggered if the operating performance deteriorates for a prolonged period of time. The ratings could be revised upward should the operating performance and financial profile of BDMS strongly improve, leading to a debt to EBITDA ratio at below 2 times for a sustained period.

COMPANY OVERVIEW

BDMS was established in 1969. Bangkok Hospital, its first private hospital, commenced operation in 1972. BDMS was listed on the Stock Exchange of Thailand (SET) in 1991. As of June 2018, the major shareholder of BDMS was Dr. Prasert Prasarttong-Osoth and family, with a shareholding of 23.3%.

BDMS is the largest private hospital operator in Thailand, owning 45 hospitals as of June 2018. The company delivers a comprehensive array of healthcare services spanning all levels and intensity of care. BDMS offers conventional healthcare from secondary to tertiary and super-tertiary care levels, as well as preventive healthcare. In 2011, the company merged with Health Network PLC (HNC), the major shareholder of Phyathai Hospital and Paolo Hospital Group.

The company's total operating revenue was Bt72,772 million in 2017 and Bt38,757 million for the first six months of 2018. Patient revenue contributed about 95% of total operating revenue. Revenues from the inpatient department (IPD) contributed 54%; the remainder came from outpatients. About 70% of total patient revenue is from Thai patients. For the first six months of 2018, self-pay patients made up 56% of patient revenue, followed by patients covered by health insurance (28%) and company-contracted patients (9%).

KEY OPERATING PERFORMANCE
Table 1: Hospitals in BDMS's Portfolio as of Jun 2018

Hospital	Abbreviation	Ownership (%)
1. Bangkok Hospital		100.0
2. Bangkok Heart Hospital	BHQ *	100.0
3. Wattanosoth Hospital		100.0
4. Bangkok Hospital Hua Hin	BHN *	100.0
5. Bangkok Hospital Sanamchan	BSN	100.0
6. Bangkok Hospital Phetchaburi	BPR	100.0
7. Bangkok Hospital Muangraj	BMR	100.0
8. Bangkok Hospital Pattaya	BPH *	97.3
9. Bangkok Hospital Rayong	BRH	100.0
10. Bangkok Hospital Chantaburi	BCH	99.7
11. Bangkok Hospital Trat	BTH *	99.8
12. Bangkok Hospital Chiangmai	BCM *	100.0
13. Bangkok Hospital Ratchasrima	BKH	91.4
14. Bangkok Hospital Pakchong	BHP	91.4
15. Bangkok Hospital Udon	BUD	100.0
16. Bangkok Hospital Phisanulok	BPL	100.0
17. Bangkok Hospital KhonKaen	BKH	100.0
18. Bangkok Hospital Phuket	BPK *	99.7
19. Bangkok Hospital Hat Yai	BHH	98.8
20. Bangkok Hospital Samui	BSH *	100.0
21. Bangkok Hospital Surat	BSR	100.0
22. Samitivej Sukhumvit Hospital	SVH *	95.8
23. Samitivej Srinakarin Hospital	SNH *	95.8
24. Samitivej Sriracha Hospital**	SSH *	70.1
25. Samitivej Thonburi Hospital	STH	63.5
26. Samitivej Chonburi Hospital	SCH	100.0
27. Samitivej Chinatown Hospital	SCT *	100.0
28. BNH Hospital	BNH *	91.5
29. Phyathai 1 Hospital***	PT1	100.0
30. Phyathai 2 Hospital***	PT2 *	99.2
31. Phyathai 3 Hospital***	PT3	98.2
32. Phyathai Sriracha Hospital***	PTS	75.1
33. Phyathai Nawamin Hospital	PTN	99.8
34. Paolo Paholyothin Hospital	PLP	100.0
35. Paolo Samutprakarn Hospital	PLS	93.6
36. Paolo Chokchai 4 Hospital	PLC	85.7
37. Paolo Rangsit Hospital	PLR	100.0
38. Paolo Kaset Hospital	PLK	100.0
39. Paolo Phrapradaeng Hospital	PLD	84.0
40. Thepakorn Hospital****	TPK	44.5
41. Sri Rayong Hospital	SRH	100.0
42. Siriroj International Hospital	SIH *	100.0
43. Dibuk Hospital	DBK	99.7
44. Royal Phnom Penh Hospital	RPH *	100.0
45. Royal Angkor International Hospital	RAH	80.0

Source: BDMS

* Hospitals achieved Joint Commission International accreditation

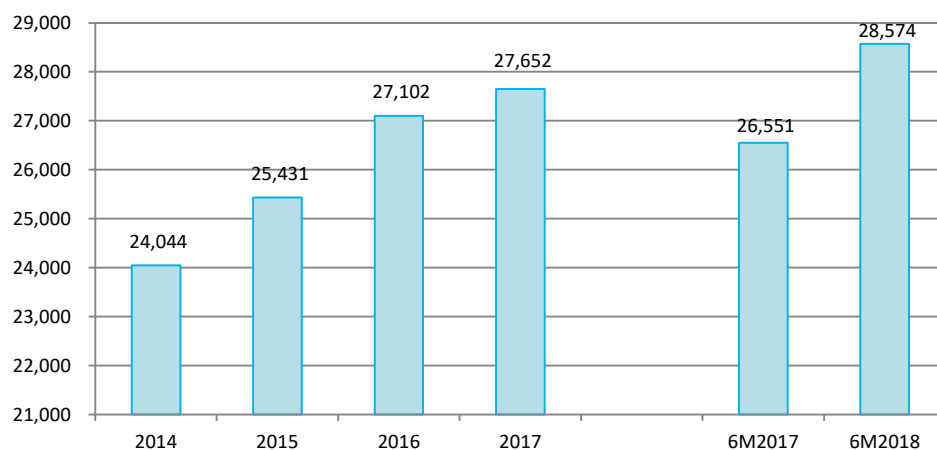
** Indirect shareholding through Samitivej PLC

*** Indirect shareholding through Prasit Patana PLC (PPCL), in which BDMS owns 98.59%

**** Indirect shareholding through Bangkok Hospital Sanamchan Co., Ltd.

Chart 1: Outpatient Visits per Day

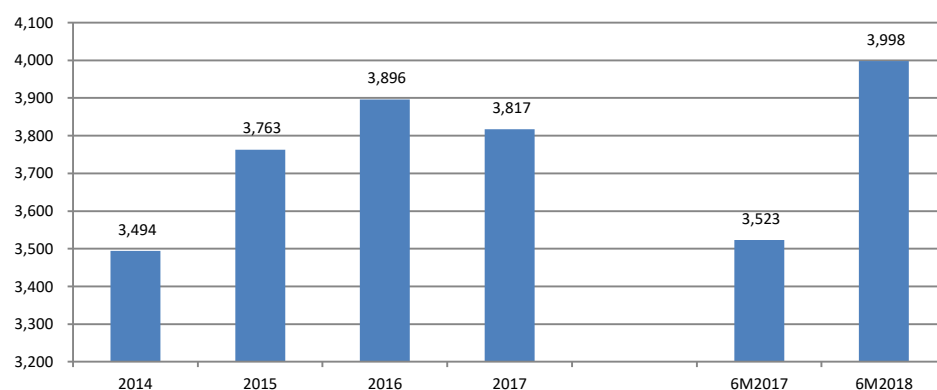
Outpatient visits/day



Source: BDMS

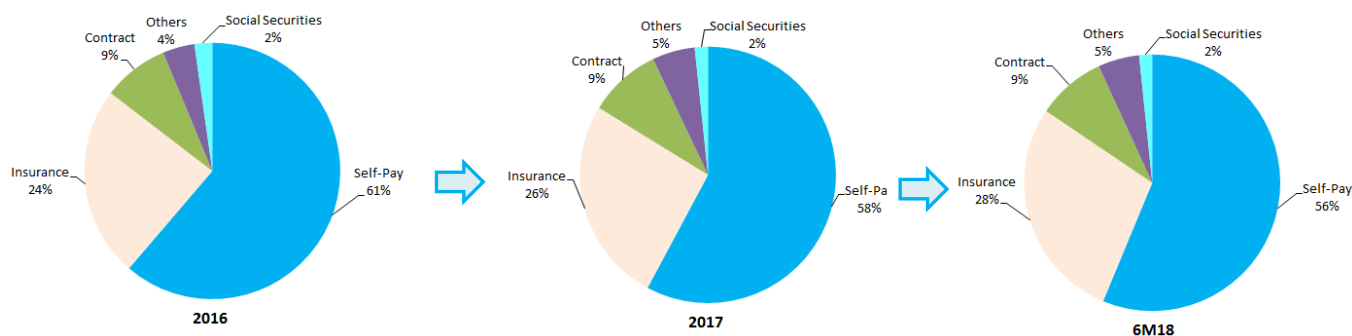
Chart 2: Average Daily Census

Beds/day



Source: BDMS

Chart 3: Patient Revenue by Payor: Increasing Insurance Portion



Source: BDMS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	38,757	72,772	68,844	63,633	56,702
Operating income	9,155	16,079	15,315	14,693	13,200
Earnings before interest and taxes (EBIT)	6,965	11,947	11,508	11,302	10,458
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	9,500	16,644	15,874	15,557	13,887
Funds from operations (FFO)	7,732	12,392	12,929	12,381	11,101
Adjusted interest expense	661	1,688	1,023	1,281	1,115
Capital expenditures	3,303	15,605	8,981	6,342	8,005
Total assets	123,649	122,627	107,015	102,335	93,370
Adjusted debt	35,605	37,528	30,817	27,869	29,214
Adjusted equity	68,648	65,871	58,305	54,997	48,998
Adjusted Ratios					
Operating income as % of total operating revenues (%)	23.62	22.09	22.25	23.09	23.28
Pretax return on permanent capital (%)	12.51 **	11.79	12.63	13.16	13.82
EBITDA interest coverage (times)	14.36	9.86	15.52	12.14	12.45
Debt to EBITDA (times)	1.94 **	2.25	1.94	1.79	2.10
FFO to debt (%)	41.32 **	33.02	41.95	44.43	38.00
Debt to capitalization (%)	34.15	36.29	34.58	33.63	37.35

* Consolidated financial statements

** Annualized with trailing 12 months

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

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