

BANGKOK DUSIT MEDICAL SERVICES PLC

No. 175/2020
26 October 2020

CORPORATES

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

Last Review Date: 24/10/19

Company Rating History:

Date	Rating	Outlook/Alert
24/10/19	AA	Stable
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 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 its extensive network of hospitals and strong franchise of hospital brands. The ratings also take into consideration BDMS’s satisfactory operating performance, moderate financial risk profile, and adequate liquidity. However, these strengths are partially offset by intense competition from local and international healthcare service providers and the negative effect of the Coronavirus Disease 2019 (COVID-19) pandemic.

KEY RATING CONSIDERATIONS

Largest private hospital operator in Thailand

BDMS is the market leader in the private hospital segment in Thailand. In 2019, BDMS’s revenue from healthcare services and sales totaled THB79.6 billion. This constitutes around 53% of the total amount of revenue reported by all listed healthcare service providers. The company’s market share is far greater than that of the second-ranked company, with a 12% market share.

As of June 2020, BDMS’s hospital referral network covered 49 hospitals, in several locations nationwide. The company provides a comprehensive array of healthcare services spanning all levels of care. BDMS had a service capacity of 6,085 inpatient beds, accounting for 16% of the total number of private hospital beds in Thailand. In addition, BDMS has the largest pool of physicians and nurses in the industry. Based on physician participation, more than 12,800 physicians and about 10,000 registered nurses work across its hospital network. We hold the view that BDMS should be able to maintain its strong market position and solid competitive edge in the medium term, backed by its extensive network and diverse range of healthcare services.

Healthcare sector affected by COVID-19

The tight control on entries into the country and quarantine requirements for foreign visitors have caused a shrink in the number of foreign patient visits. For the first half of 2020, total revenue from listed healthcare service companies dropped by about 12% year-on-year (y-o-y). For those firms targeting healthcare tourism patients, revenue dipped by 15%-30% y-o-y compared with the same period.

Normally, about 70% of BDMS’s total revenue is derived from Thai patients, and the remainder from foreign patients. The COVID-19 crisis and subsequent national lockdown caused BDMS’s foreign patient volume to drop markedly in the second quarter of 2020. Thai patient volume also declined in April 2020 during the height of the COVID-19 fears and curfew period. In the first half of 2020, BDMS’s foreign outpatient numbers dropped by about 28% y-o-y to 2,948 visits per day, while Thai outpatients per day declined by 12% y-o-y to 22,245 visits. As a result, BDMS’s total patient revenue in the first half of 2020 slipped to THB32 billion from THB38.5 billion for the same period the previous year.

In the second half of 2020, the Thai government has eased several measures. We expect medical tourists will probably be among the first foreigners allowed in when the country gradually reopens, to help restart the economy.

Recently, the government announced plans to allow foreign tourists to visit for longer stays starting from October 2020. With Thailand's competitive strengths in quality healthcare services, location, and lower prices compared with other countries, a large number of foreigners remain keen to come to Thailand for their medical treatments.

After the relaxation of several restrictive measures, there have been signs of a recovery in local patient numbers although it has not yet fully resumed. BDMS has a large base of Thai patients and has put more efforts to draw new local patients, by introducing promotional campaigns and collaborating with the insurance companies. Under our base-case scenario, we project BDMS's operating revenues to drop by around 20% in 2020. We project the operating revenues in 2021 to gradually improve, but still about 10% below the 2019 level. The revenue is forecast to regain its level of about THB82-THB86 billion per annum for the following two years thereafter.

BDMS reported earnings before interest, tax, depreciation, and amortization (EBITDA) at about THB19.4 billion in 2019. However, the EBITDA in the first half of 2020 dropped by 14% to THB7.6 billion, due to the revenue drop. In 2020, BDMS has implemented expense controls and postponed major capital expenditures to alleviate the impact of depressed revenue. For the next three years, we forecast BDMS's EBITDA margins to be 19%-20%, owing to the impact of COVID-19 and major operating costs such as the personnel expenses.

Strong brand franchises targeting various customer segments support revenue growth

BDMS has five well-established brands in Thailand: "Bangkok Hospital", "Samitivej Hospital", "BNH Hospital", "Phyathai Hospital", and "Paolo Hospital". Currently, 14 hospitals in BDMS's hospital network are accredited by the Joint Commission International (JCI) and widely accepted at the international level and among Thai patients. 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 patients on the social security scheme.

BDMS upgraded 10 major hospitals to "Centers of Excellence" (COEs), equipped with more advanced healthcare technology, to undertake specialized healthcare treatments. In addition, the company launched "BDMS Wellness Clinic", and "Movenpick BDMS Wellness Resort Bangkok" (Resort) to provide preventive healthcare services. During the national lockdown, BDMS's Resort was among the first hotels in Bangkok to become an alternative state quarantine (ASQ) hotel. At the same time, BDMS has also transformed some inpatient wards at its 30 hospitals for the alternative hospital quarantine program (AHQ). These ASQ and AHQ set-ups are expected to help soften the impact of the sharp decline in foreign patients.

Over the last three years, BDMS's patient revenues from the health insurance segment have been on a rising trend. With its strategy to increase patients covered by insurance, the company has collaborated with insurance companies to promote health insurance. For the first six months of 2020, revenue from patients with health insurance accounted for 32% of BDMS's total patient revenue, up from 31% in 2019 and 29% in 2018. The increasing numbers of patients in the health insurance segment are expected to help improve hospital beds utilization over the long term.

Intense competition to continue

We expect the prospects of the healthcare industry in Thailand in the medium term to remain sound as the country's population ages and health-consciousness continues to rise worldwide. However, competition in the industry, from both domestic and international players, is stiff. We expect domestic market competition to intensify with more new entrants to the private healthcare segment over the next three years. There is a rising number of government-run healthcare centers such as special clinics at government hospitals, and new private hospitals. We have also seen many real estate companies or hotels shifting their business models to include healthcare services. The intensifying competition will likely lead to increasing movements of physicians and nurses among hospitals, and price competition in the market over the medium term.

Moderate financial leverage

We expect BDMS's debt level to be THB29-THB32 billion during the next three years. Its capital expenditures over the next few years are expected to be mainly its maintenance capital expenditures of THB3.5-THB8 billion per year, and funds needed for capacity expansion at its existing hospitals. Given BDMS's strong cash generation, we expect the company to mostly finance the capital expenditures from operating cash flows. During the next three years, in absence of any large debt-funded acquisitions, we project its adjusted debt to capitalization ratio to stay below 35%. Its net debt to EBITDA ratio is forecast to be around 2 times and the ratio of funds from operations (FFO) to total debt to stay above 40%.

Adequate liquidity

We assess BDMS to have adequate liquidity over the next 12-24 months. Sources of funds include cash and cash equivalents which stood at THB4.3 billion at the end of June 2020. We forecast FFO of around THB12-THB13 billion during the next 12 months. The funds are to be used as its planned capital expenditures, estimated at about THB6.5-THB8 billion

per annum. About THB3.5 billion in long-term debts will come due in 2021, while about THB5.1 billion in long-term debts and debentures will come due in 2022. BDMS also has financial flexibility in its investment in Bumrungrad Hospital PLC shares, of which the market value was THB17.2 billion as of 16 October 2020.

The company has to comply with two key financial ratio covenants on its bonds and bank loans: 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 June 2020, the ratios were 0.4 times and 1.9 times, respectively. We believe that the company should have no problem complying with the key financial covenants.

BASE-CASE ASSUMPTIONS

- Revenue to drop by about 20% in 2020, then gradually improve in 2021 but stay around 10% below the 2019 level, before rebounding to the level of about THB82-THB86 billion per annum for the following two years.
- EBITDA margin of 19%-20%.
- Total capital spending of around THB29 billion during 2020-2023.

RATING OUTLOOK

The “stable” outlook reflects our expectation that BDMS will maintain its leading position in the private hospital market and maintain an adequate liquidity profile.

RATING SENSITIVITIES

The ratings of BDMS could come under downward pressure if BDMS makes any aggressive debt-funded investments and/or acquisitions that result in the debt to EBITDA ratio staying over 2.0 times, or the FFO to total debt ratio below 40% for a sustained period. The prospect of a rating upgrade is limited in the medium term.

COMPANY OVERVIEW

BDMS was established in 1969. Bangkok Hospital, its first private hospital, commenced operation in 1972. BDMS was listed on the SET in 1991. As of June 2020, the major shareholder of BDMS was Dr. Prasert Prasarttong-Osoth and spouse, with a shareholding of 15.9%.

BDMS is the largest private hospital operator in Thailand, owning 49 hospitals as of August 2020. The company delivers a comprehensive array of healthcare services spanning all levels and intensities 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. During 2018-2019, the company launched BDMS Wellness Clinic to provide preventive healthcare services. Its wellness clinic is situated next to the Movenpick BDMS Wellness Resort Bangkok, a 290-room hotel.

The company’s total operating revenue was THB83.8 billion in 2019 and about THB40 billion for the first half of 2020. Patient revenue contributed about 94% of total operating revenue. Revenues from the inpatient department (IPD) contributed 53%; the remainder came from outpatients. About 76% of total patient revenue is from Thai patients. For the first six months of 2020, self-pay patients made up 53% of patient revenue, followed by patients covered by health insurance (32%), company-contracted patients (8%), patients under the social security scheme (2%), and others (5%).

KEY OPERATING PERFORMANCE
Table 1: Hospitals in BDMS's Portfolio as of Aug 2020

Hospital	Abbreviation	Ownership (%)
1. Bangkok Hospital		100.0
2. Bangkok Heart Hospital	BHQ *	100.0
3. Wattanosoth Hospital		100.0
4. Chiva Transitional Care		100.0
5. Bangkok International Hospital		100.0
6. Bangkok Hospital Hua Hin	BHN *	100.0
7. Bangkok Hospital Sanamchan	BSN	100.0
8. Bangkok Hospital Phetchaburi	BPR	100.0
9. Bangkok Hospital Muangraj	BMR	100.0
10. Bangkok Hospital Pattaya	BPH *	97.3
11. Bangkok Hospital Rayong	BRH *	100.0
12. Bangkok Hospital Chanthaburi	BCH	99.7
13. Bangkok Hospital Trat	BTH	99.8
14. Bangkok Hospital Chiangmai	BCM *	100.0
15. Bangkok Hospital Ratchasima	BKH	91.4
16. Bangkok Hospital Pakchong	BHP	91.4
17. Bangkok Hospital Udon	BUD	100.0
18. Bangkok Hospital Phitsanulok	BPL	100.0
19. Bangkok Hospital Khon Kaen	BKN	100.0
20. Bangkok Hospital Chiangrai	BCR	100.0
21. Bangkok Hospital Phuket	BPK *	99.7
22. Bangkok Hospital Hat Yai	BHH	98.8
23. Bangkok Hospital Samui	BSH *	100.0
24. Bangkok Hospital Surat	BSR	100.0
25. Bangkok Hospital Siriroj	BSI *	100.0
26. Samitivej Sukhumvit Hospital	SVH *	95.8
27. Samitivej Srinakarin Hospital	SNH *	95.8
28. Samitivej Sriracha Hospital**	SSH *	70.1
29. Samitivej Thonburi Hospital	STH	64.0
30. Samitivej Chonburi Hospital	SCH	100.0
31. Samitivej Chinatown Hospital	SCT	100.0
32. BNH Hospital	BNH *	91.5
33. Phyathai 1 Hospital***	PT1	98.6
34. Phyathai 2 Hospital***	PT2 *	97.8
35. Phyathai 3 Hospital***	PT3	97.6
36. Phyathai Sriracha Hospital****	PTS	74.2
37. Phyathai Nawamin Hospital	PTN	99.8
38. Paolo Paholyothin Hospital	PLP	100.0
39. Paolo Samutprakarn Hospital	PLS	93.7
40. Paolo Chokchai 4 Hospital	PLC	85.7
41. Paolo Rangsit Hospital	PLR	100.0
42. Paolo Kaset Hospital	PLK	100.0
43. Paolo Phrapradaeng Hospital	PLD	84.0
44. Thepakorn Hospital****	TPK	50.0
45. Sri Rayong Hospital	SRH	100.0
46. Dibuk Hospital	DBK	99.7
47. Jomtien Hospital	JTH	100.0
48. Royal Phnom Penh Hospital	RPH *	100.0
49. Royal Angkor International Hospital	RAH	80.0

Source: BDMS

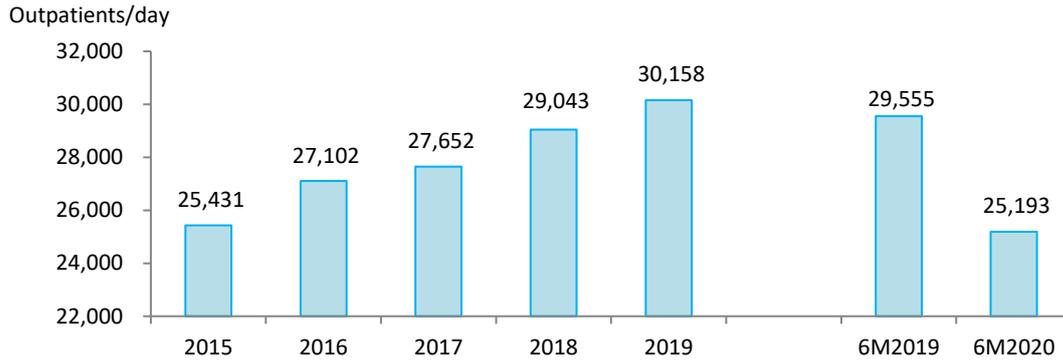
* Hospitals achieved Joint Commission International accreditation

** Indirect shareholding through Samitivej PLC

*** Indirect shareholding through Prasit Patana PLC (PPCL), in which BDMS owns 98.60%

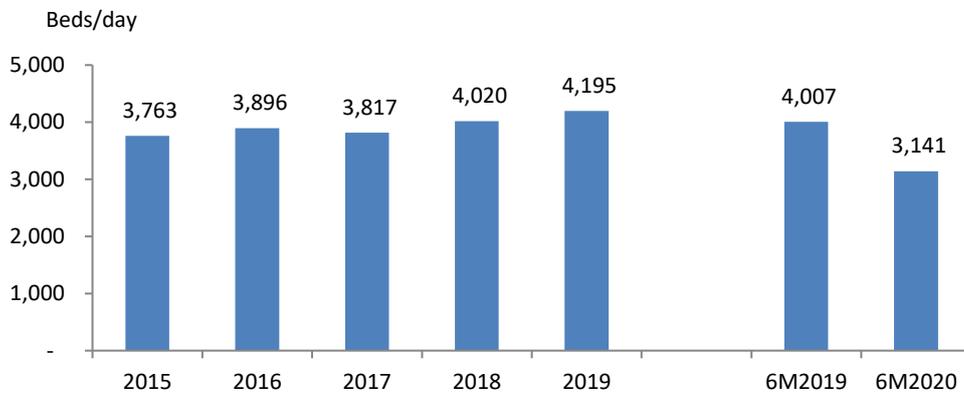
**** Indirect shareholding through Bangkok Hospital Sanamchan Co., Ltd.

Chart 1: Outpatient Visits per Day



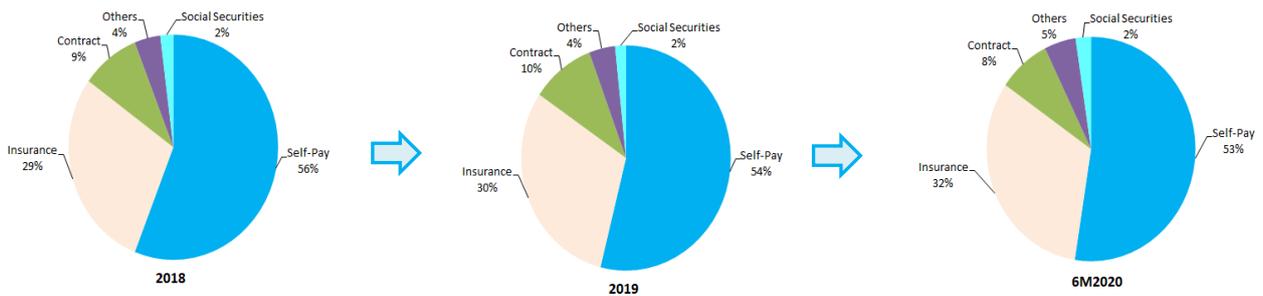
Source: BDMS

Chart 2: Average Daily Census



Source: BDMS

Chart 3: Patient Revenue by Payor: Increasing Insurance Portion



Source: BDMS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	33,980	83,774	78,288	72,772	68,844
Earnings before interest and taxes (EBIT)	4,419	13,428	13,746	11,955	11,508
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,992	19,371	18,528	16,652	15,874
Funds from operations (FFO)	6,792	14,333	14,429	12,392	12,929
Adjusted interest expense	468	1,164	1,359	1,696	1,023
Capital expenditures	3,806	7,995	7,700	15,605	8,981
Total assets	132,852	133,662	133,499	122,627	107,015
Adjusted debt	31,889	25,215	39,036	37,528	30,817
Adjusted equity	84,409	87,182	73,438	65,871	58,305
Adjusted Ratios					
EBITDA margin (%)	23.52	23.12	23.67	22.88	23.06
Pretax return on permanent capital (%)	9.86 **	11.38	12.11	11.79	12.63
EBITDA interest coverage (times)	17.09	16.64	13.63	9.82	15.52
Debt to EBITDA (times)	1.74 **	1.30	2.11	2.25	1.94
FFO to debt (%)	47.88 **	56.85	36.96	33.02	41.95
Debt to capitalization (%)	27.42	22.43	34.71	36.29	34.58

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Bangkok Dusit Medical Services PLC (BDMS)

Company Rating:	AA
Issue Ratings:	
BDMS222A: THB2,500 million senior unsecured debentures due 2022	AA
BDMS233A: THB4,000 million senior unsecured debentures due 2023	AA
BDMS242A: THB1,500 million senior unsecured debentures due 2024	AA
BDMS256A: THB2,000 million senior unsecured debentures due 2025	AA
BDMS266A: THB3,000 million senior unsecured debentures due 2026	AA
Rating Outlook:	Stable

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