

BANGKOK DUSIT MEDICAL SERVICES PLC

No. 179/2022
12 October 2022

CORPORATES

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

Last Review Date: 29/10/21

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

Contacts:

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Jutatip Chitphromphan
jutatip@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com

RATIONALE

TRIS Rating upgrades the company rating on Bangkok Dusit Medical Services PLC (BDMS) and the ratings on its senior unsecured debentures to "AA+" from "AA", with a "stable" outlook. The upgrades reflect BDMS's better-than-expected operating performance, supported by strong recovery of international patients, as well as its improving efficiency, and enhanced asset utilization.

The ratings continue to reflect BDMS's leading position as the largest private healthcare service provider in Thailand, with its expansive franchise of well-recognized hospital brands and hospital network. The ratings also take into consideration the company's very strong balance sheet and abundant liquidity profile.

KEY RATING CONSIDERATIONS

Largest private healthcare service provider in Thailand

BDMS has maintained its dominant position as the largest private healthcare service provider in Thailand. BDMS has an extensive hospital network, covering 54 hospitals located across Thailand and neighbouring countries. As of June 2022, BDMS had a service capacity of 6,658 inpatient beds, accounting for 18% of the total number of private hospital beds in Thailand. BDMS has generated THB69-THB83 billion in yearly revenue over the past five years, or about half of the total revenue reported by all private hospitals listed on the Stock Exchange of Thailand (SET).

BDMS's competitive strength stems from its extensive hospital network with geographical diversification, a comprehensive array of healthcare services offered, and its wide customer base. The company has a strong referral network with the largest pool of physicians and nurses. Based on physician participation, more than 11,000 physicians and about 8,000 registered nurses work across BDMS's hospital network.

During 2015-2019, 70% of BDMS's total patient revenue was derived from Thai patients and 30% from international patients.

Solid operating performance in 2021-2022

In 2021, BDMS reported THB75.7 billion of operating revenue, a 10% increase from 2020. For the first six months of 2022, its revenue rose significantly by 34% year-on-year (y-o-y) to THB45.1 billion, supported by rising numbers of Thai patients and a strong recovery from international patients. BDMS's operating performance has been stronger than expected, with its revenue in the first half of 2022 being 12% above the levels before Coronavirus Disease 2019 (COVID-19) pandemic in the same period of 2019.

In the first half 2022, revenue from Thai patients rose by 28% y-o-y, while international patient revenues increased strongly by 69%. The rising revenue from Thai patients were derived from both COVID-19 related patients and the recovery of non-COVID-19 patients. These supporting factors helped increase the overall occupancy rate to 75% during the first six months of 2022, compared with 53% in the same period of 2021.

We believe the hospital network expansion, new medical service offerings, and adoption of advance medical technologies will help reaching new patient groups and further materializing its revenue potential. BDMS has continued to expand its bed capacity by opening new hospitals and new facilities in several



locations. In 2022, BDMS opened a new building at Bangkok Udon Hospital, and two new facilities for patients in the premium segment and social security services at Paolo Chockchai 4 Hospital. BDMS has focused on expanding its insured patient group through partnerships with multiple insurance companies, with its revenue from patients covered by insurance for the first half of 2022 accounted for 32% of healthcare service revenues, rising from 29% in 2018.

Strong recovery in international patients

We view BDMS's revenue from international patients as poised to rebound strongly following the significant decline during the past two pandemic years. Numbers of fly-in patients began rebounding in November 2021 leading to sound recovery in 2022 as the Thai government gradually eased travel restrictions and quarantine requirements. With pent-up demand for complex healthcare services in the medical tourism segment, international patients require more complex and high acuity treatments. For the first six months of 2022, BDMS's international patient visits rose to averagely 3,975 patients per day, a 59% y-o-y increase, where the number of visits comes close to the levels seen before COVID-19.

BDMS's revenue from expat patients, particularly Japan, the United States, and the United Kingdom, has already reached pre-COVID-19 levels since the beginning of 2022. Patients from Thailand's neighboring countries recovered faster than others. Revenue from Middle East patients rose significantly by more than 300% y-o-y in the first half of 2022. Consequently, BDMS recorded a 69% y-o-y growth in international patient revenues to nearly THB10 billion, but remained 19% below the same period in 2019.

Over the next three years, revenue from international patients is expected to revive its growth trajectory after the broad easing of COVID-19 restrictions worldwide and the Thai government's tourism stimulus measures. With strong recovery in the demand for medical tourism, we expect international patient visits in 2023 to rebound close to the pre-pandemic levels.

New wellness projects to widen customer base

In May 2022, BDMS announced that it will develop the "BDMS Silver Wellness & Residence" project. The project will be located at the corner of Sarasin Road and Lang Suan Road, close to the Lumpini Park. Covering 13 rais of land and total areas of approximately 170,000 square meters, this project consists of Silver Residence and Wellness Clinic, a center for preventive care services with health technology and innovation to support holistic health of wellness-focused communities. We view this new project captures the growing trend of preventive healthcare and real estate for silver age and health-conscious customers, of which Thailand is considered the most popular destinations for global medical and wellness tourism.

The total project value is THB23.5 billion. BDMS has entered into a land lease agreement, with the Crown Property Bureau. The total cost of 30-year-lease land agreement (which can be renewed for another 30 years) is approximately THB9.145 billion. The first installment of THB2.5 billion was paid on the contract date in 2022 and the remainder will be paid after the construction is completed in the next 6.5 years. The investment budget for building construction, medical equipment, information system installation, and others is worth THB14.4 billion. BDMS plans to develop this project over 6.5 years, with sources of funds derived from internal cash flow, bank loans, and/or debenture issuances.

BDMS also plans to introduce its new healthcare platform and step up online services to reach new customer groups. The new platform will allow the customers to access BDMS's digital healthcare solutions, services, drugs, and supplements, including telemedical consultation and drug delivery services. Telemedicine services has grown in popularity during the pandemic period and is expected to enhance customer base and generate more income in the future.

Earnings expected to rise

Going forward, we expect BDMS's performance to continue improving in tandem with strong healthcare service market conditions and on the back of the company's strong competitive position in the market, with its revenues rebounding to THB83-THB89 billion annually during the next three years. We expect rising international patient revenues coupled with the recovery of non-COVID-19 Thai patients, to help offset the decline of COVID-19 related revenues.

BDMS's operating expenses during 2022-2023 are expected to increase to support its patient recovery and network expansion plans. To alleviate the impact, BDMS has focused more on improving efficiency and cost-control efforts, such as increasing usage of generic drugs, supply chain management, and appropriate marketing promotions and campaigns. We project BDMS's earnings before interest, taxes, depreciation, and amortization (EBITDA) to be in the range of THB18-THB20 billion with EBITDA margin of 22%-23% over the next three years.

Low-debt balance sheet

BDMS has a strong financial profile, with a low financial leverage ratio and ample liquidity. Its interest-bearing debt was about THB16 billion as of June 2022. Its debt-to-capitalization ratio was at a very healthy level of 8.3% at the end of June 2022. As BDMS delivered improving EBITDA, the debt to EBITDA ratio improved to 0.4 times as of June 2022, from 0.6 times at the end of 2021.

In our base-case forecast, we project BDMS to spend about THB6-THB10 billion per annum on new investment projects, capacity expansion, maintenance capital expenditures, and technology-related development. With the projected strong operation, we expect BDMS to partly finance its capital expenditures with internal cash flows. Its debt to EBITDA ratio is expected to be in the range of 1.0-1.5 times during the forecast period.

Ample liquidity

We assess BDMS to have ample liquidity over the next 12-18 months. As of June 2022, its sources of funds comprised cash on hand and cash equivalents of THB16.6 billion, with undrawn bank facilities of THB19 billion. We forecast its funds for operations (FFO) to be around THB15 billion over the next 12 months. Uses of funds include capital expenditures and maturing debentures of THB0.6 billion in the second half of 2022 and THB5 billion of maturing debentures in 2023.

BASE-CASE ASSUMPTIONS

- Revenues to rebound strongly reaching THB83-THB89 billion annually during the next three years.
- EBITDA margin to be in the 22%-23% range.
- Total capital spending of around THB6-THB10 billion per annum.

RATING OUTLOOK

The “stable” outlook reflects our expectation that BDMS will maintain its leading position in the private healthcare service market and deliver sound operating performance. With its financial discipline, BDMS’s financial position will likely remain strong with its debt to EBITDA ratio in the range of 1.0-1.5 times over the forecast period.

RATING SENSITIVITIES

The ratings and/or outlook could be revised downward if BDMS’s financial profile and operating performance deteriorate significantly, or any debt-funded investments materially weaken the company’s balance sheet, with its debt to EBITDA ratio exceeding 1.5 times over an extended period. A rating upgrade is unlikely 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 2022, the major shareholder of BDMS was Dr. Prasert Prasarttong-Osoth and spouse, with a combined shareholding of 12.9%.

BDMS is the largest private hospital operator in Thailand, owning 54 hospitals as of June 2022. 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 211-room hotel.

The company’s total operating revenue was THB75.7 billion in 2021 and THB45.1 billion for the first half of 2022. In the first six months of 2022, about 77% of its total patient revenue came from Thai patients with international patient revenues accounting for the remainder. Self-pay patients made up 50% of patient revenue, followed by patients covered by health insurance (32%), company-contracted patients (11%), as well as patients under the social security scheme and others (7%).

KEY OPERATING PERFORMANCE

Table 1: Hospitals in BDMS's Portfolio as of Aug 2022

Hospital	Abbreviation	Ownership (%)
1. Bangkok Hospital	BHQ *	100.0
2. Bangkok Heart Hospital		100.0
3. Wattanosoth Hospital		100.0
4. Wattanosoth International		100.0
5. Chiva Transitional Care		100.0
6. Bangkok International Hospital		100.0
7. Bangkok Hospital Hua Hin	BHN *	100.0
8. Bangkok Hospital Sanamchan	BSN	100.0
9. Thepakorn Hospital****	TPK	50.0
10. Bangkok Hospital Phetchaburi	BPR	100.0
11. Bangkok Hospital Muangraj	BMR	100.0
12. Bangkok Hospital Pattaya	BPH *	97.3
13. Bangkok Hospital Rayong	BRH	100.0
14. Bangkok Hospital Chanthaburi	BCH	99.7
15. Bangkok Hospital Trat	BTH	99.8
16. Koh Chang International		99.8
17. Sri Rayong Hospital	SRH	100.0
18. Jomtien Hospital	JTH	97.3
19. Bangkok Hospital Chiangmai	BCM *	100.0
20. Bangkok Hospital Ratchasima	BKH	91.5
21. Bangkok Hospital Pakchong	BHP	91.5
22. Bangkok Hospital Udon	BUD	100.0
23. Bangkok Hospital Phitsanulok	BPL	100.0
24. Bangkok Hospital Khon Kaen	BKN	100.0
25. Bangkok Hospital Chiangrai	BCR	100.0
26. Bangkok Hospital Phuket	BPK *	99.7
27. Bangkok Hospital Siriroj	BSI *	100.0
28. Dibuk Hospital	DBK	99.7
29. Bangkok Hospital Hat Yai	BHH	98.8
30. Bangkok Hospital Samui	BSH	100.0
31. Bangkok Hospital Surat	BSR	100.0
32. Samitivej Sukhumvit Hospital	SVH *	95.8
33. Japanese by Samitivej		95.8
34. Samitivej Srinakarin Hospital	SNH *	95.8
35. Samitivej Sriracha Hospital**	SSH	67.5
36. Samitivej Thonburi Hospital	STH	64.0
37. Samitivej Chonburi Hospital	SCH	100.0
38. Samitivej Chinatown Hospital	SCT	100.0
39. BNH Hospital	BNH *	91.5
40. Phyathai 1 Hospital***	PT1	98.6
41. Phyathai 2 Hospital***	PT2 *	97.8
42. Phyathai 3 Hospital***	PT3	97.6
43. Phyathai Sriracha Hospital***	PTS	74.5
44. Phyathai Nawamin Hospital	PTN	99.8
45. Paolo Phaholyothin Hospital	PLP	100.0
46. Paolo Samutprakarn Hospital	PLS	93.7
47. Paolo Chokchai 4 Hospital	PLC	85.7
48. Paolo Chokchai 4 Building 3	PLC	85.7
49. Paolo Chokchai 4 Building 5	PLC	85.7
50. Paolo Rangsit Hospital	PLR	100.0
51. Paolo Kaset Hospital	PLK	100.0
52. Paolo Phrapradaeng Hospital	PLD	84.0
53. Royal Phnom Penh Hospital	RPH *	100.0
54. Royal Angkor International Hospital	RAH	80.0

Source: BDMS

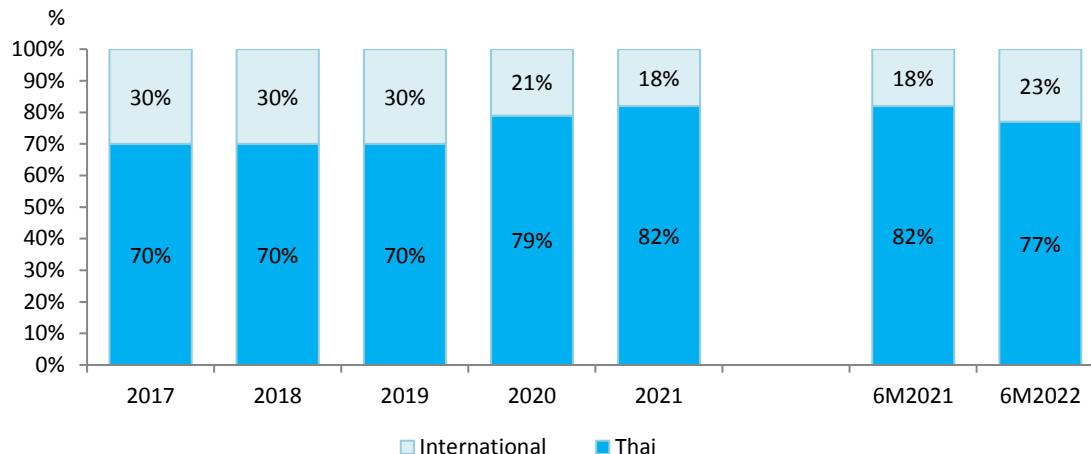
* Hospitals achieved Joint Commission International accreditation

** Indirect shareholding through Samitivej PLC

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

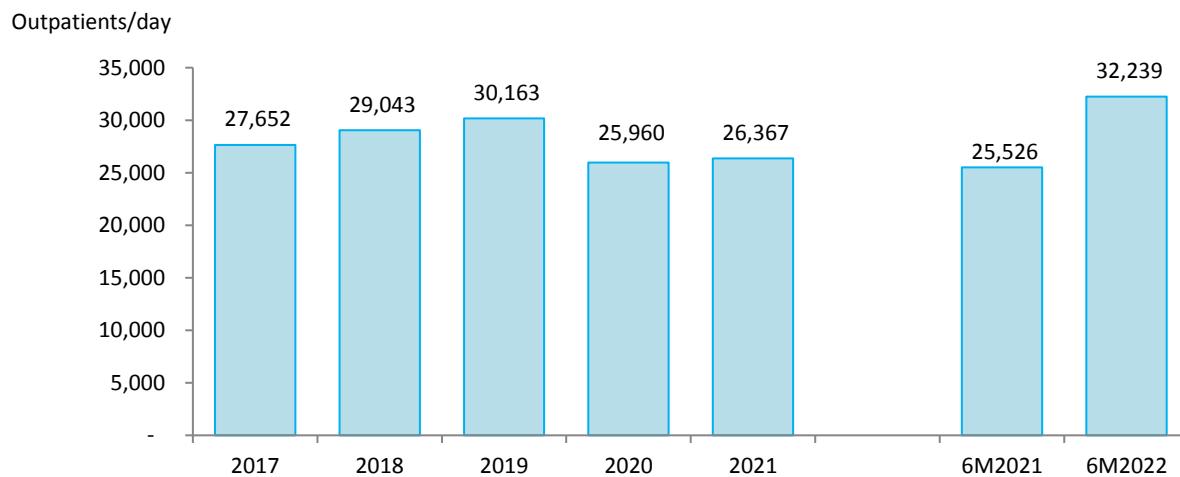
**** Indirect shareholding through Bangkok Hospital Sanamchan Co., Ltd.

Chart 1: Revenue Contribution by Nationality (%)



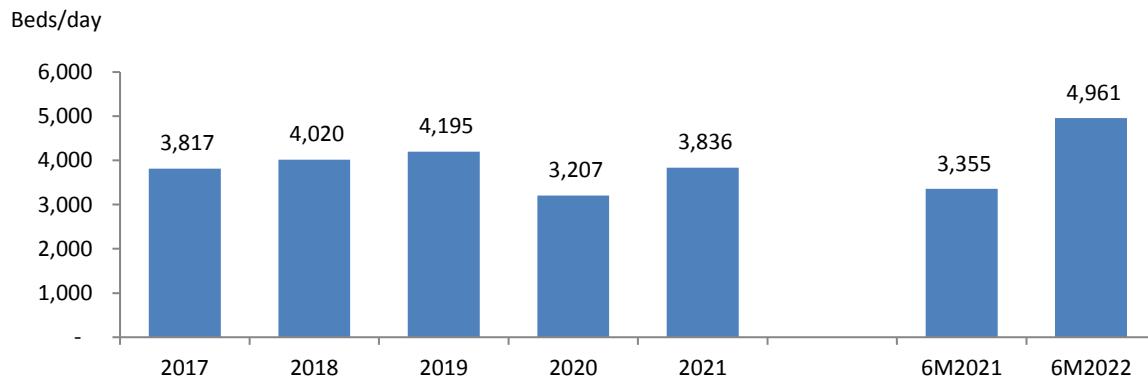
Source: BDMS

Chart 2: Outpatient Visits per Day



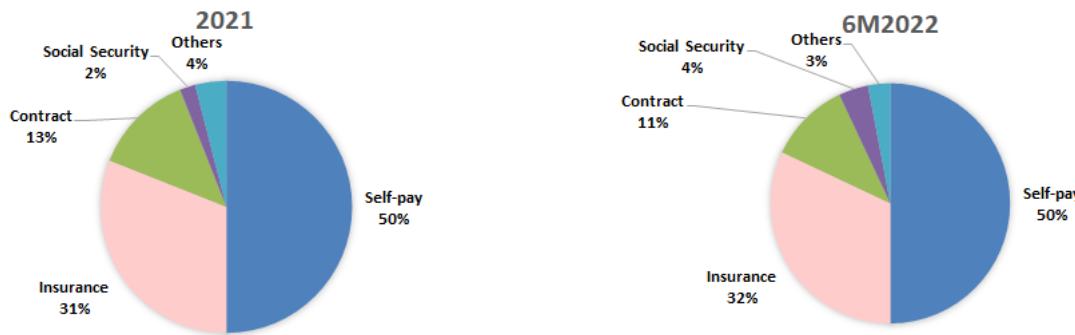
Source: BDMS

Chart 3: Average Daily Census



Source: BDMS

Chart 4: Patient Revenue by Payor: Increasing Insurance Portion



Source: BDMS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Year Ended 31 December				
	Jan-Jun 2022	2021	2020	2019	2018
Total operating revenues	45,140	75,714	69,057	83,774	78,288
Earnings before interest and taxes (EBIT)	8,401	11,452	8,958	13,428	13,746
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	11,746	18,164	16,013	19,371	18,528
Funds from operations (FFO)	9,808	15,119	12,423	13,429	14,822
Adjusted interest expense	340	858	986	1,164	1,359
Capital expenditures	2,390	4,371	6,654	7,995	7,700
Total assets	133,780	128,454	136,050	133,662	133,499
Adjusted debt	8,265	11,591	8,671	25,215	39,036
Adjusted equity	90,962	87,765	91,463	87,182	73,438
Adjusted Ratios					
EBITDA margin (%)	26.02	23.99	23.19	23.12	23.67
Pretax return on permanent capital (%)	13.98 **	9.86	7.51	11.38	12.11
EBITDA interest coverage (times)	34.54	21.17	16.24	16.64	13.63
Debt to EBITDA (times)	0.37 **	0.64	0.54	1.30	2.11
FFO to debt (%)	224.91 **	130.44	143.27	53.26	37.97
Debt to capitalization (%)	8.33	11.67	8.66	22.43	34.71

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Bangkok Dusit Medical Services PLC (BDMS)

Company Rating:	AA+
Issue Ratings:	
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

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, 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, 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 www.trisrating.com/rating-information/rating-criteria