

# BANGKOK DUSIT MEDICAL SERVICES PLC

No. 88/2014

27 October 2014

<b>Company Rating:</b>	AA-
<b>Issue Rating:</b>	
Senior unsecured	AA-
<b>Outlook:</b>	Stable

## Company Rating History:

Date	Rating	Outlook/Alert
10/11/11	A+	Stable
17/12/10	A	Positive
11/02/08	A	Stable

## Contacts:

Sarinthorn Sosukpaibul  
[sarinthorn@trisrating.com](mailto:sarinthorn@trisrating.com)

Jutatip Chitphromphan  
[jutatip@trisrating.com](mailto:jutatip@trisrating.com)

Suchada Pantu, Ph. D.  
[suchada@trisrating.com](mailto:suchada@trisrating.com)

[WWW.TRISRATING.COM](http://WWW.TRISRATING.COM)

## Rating Rationale

TRIS Rating upgrades the company rating and senior unsecured debenture ratings of Bangkok Dusit Medical Services PLC (BGH) to “AA-” from “A+”. The upgrades reflect BGH’s stronger business profile, supported by the ongoing growth of the healthcare industry, BGH’s more extensive referral network of hospitals, plus its ability to manage the Group’s overall operating performance and maintain an appropriate level of leverage. BGH’s ratings continue to reflect its leading market position as the largest private hospital operator in Thailand and its experienced management team and capable physicians. These strengths are partially offset by the large capital expenditures BGH will make in the medium term and competition in the local and international healthcare markets.

BGH was established in 1969 to operate Bangkok Hospital, a private hospital. The company is the largest private hospital operator in Thailand, with a strong network of hospital brands. Currently, BGH operates 37 hospitals, under five well-known hospital brands, one international hospital brand, and other 3 local hospital brands. BGH’s five key hospital brands are Bangkok Hospital (18 hospitals), Samitivej Hospital (4), BNH Hospital (1), Phyathai Hospital (5), and Paolo Memorial Hospital (3). These five brands are well-known among Thais. Three international hospitals in Cambodia are run under the Royal International Hospital brand. Other three local brands are Sanamchan Hospital, Tepakorn Hospital, and Phuket International Hospital. BGH had a service capacity of 4,707 inpatient beds at the end of June 2014. Its customer base covers the mid- to high-end segments in various locations. Thirteen of BGH’s hospitals and one clinic have achieved Joint Commission International (JCI) accreditation.

BGH’s business profile is very strong, reflecting its leading market position as the largest private hospital operator in Thailand. BGH’s competitive edge is derived from the diverse range of services it offers, its broad customer base, and the locations of hospitals. The company has the largest pool of physicians, nurses, and clinical staff in Thailand, as well as the strongest referral network. BGH’s focus on tertiary care helps boost revenue and increase the utilization of its medical equipment and laboratories. The company has widened its customer base to reach more middle income patients by adding more secondary care hospitals. Economies of scale, through the pooling lab services and the centralized purchasing of medicines, medical supplies, and key medical equipment, is expected to yield benefits in the cost effectiveness.

BGH’s performance has remained solid, despite facing a domestic economic slowdown and political uncertainty last year. Revenue from hospital operations grew at a compound annual growth rate (CAGR) of 18% from 2008 through 2013. For the first six months of 2014, total revenues from hospital operations were Bt26,078 million, up by 11% from the same period last year. The rise was driven by increase in patient volume, a rise in patient severity and healthcare inflation, and the consolidation of new network hospitals. For the first six months of 2014, outpatient visits per day amounted to 22,795 persons, or a rise of 7% year-on-year (y-o-y). The average daily census (the average number of inpatients per day) rose by 12% y-o-y to 3,280 patients. About 55% of patient revenue came from inpatients; the remainder came from outpatients. Self-pay patients contributed about 66% of total revenue.

During 2015-2017, TRIS Rating’s base case expects BGH’s revenue to grow by an average of 10% per annum. The key growth drivers are the new hospitals added to BGH’s network and growth in patient volume across its hospital network. The operating margin (operating income before depreciation and amortization as a percentage of sales) was 20.4% in 2013, compared with about 22.3% during 2009-2012. Administrative expenses and expenses for doctors and clinical staffs were higher last year, as BGH prepared the healthcare resources needed for its new hospitals. However, the margin for the first six months of 2014 improved to 21.9%, as the company focused its efforts on controlling costs. During the next three years, TRIS Rating expects BGH’s operating margin to maintain at around 20%-22%.

BGH’s financial strength is underpinned by its sound operating performance, an improvement in its ability to generate cash flow, and sufficient liquidity. Funds from operations (FFO) were Bt9,411 million in 2013, climbing from Bt8,819 million in 2012. During 2015-2017, TRIS Rating’s base case expects BGH to generate FFO in a range of Bt10,000-Bt13,000 million per annum. The FFO to total debt ratio is expected to be in the range of 35%-45% during 2015-2017.

BGH plans to expand its network to 50 hospitals within 2016. To pursue its growth strategy, BGH is building more seven new hospitals and acquired other hospitals to expand its patient base in several areas. The expansion pushed total debt outstanding to rise from Bt19,916 million at the end of 2012 to Bt23,421 million at the end of June 2014. However, with its large capital base and careful management of its capital structure, BGH kept the debt to capitalization ratio relatively stable. The ratio was about 35% during 2012 through the end of June 2014. During 2015-2017, TRIS Rating expects BGH to spend a total of capital expenditures of about Bt30,000 million. The capital BGH needs to fund its investments will be provided in part by its operating cash flow and the cash it receives from an issuance of Bt10,000 million in convertible debentures. Despite entering an investment cycle, BGH is expected to manage its capital structure conservatively and maintain an adequate financial cushion. The company’s debt to capitalization ratio is expected to stay below 45% during the next three years.

### Rating Outlook

The “stable” outlook reflects the expectation that BGH will maintain its leading position in both the domestic and regional private hospital markets and continue to deliver solid operating performance for both existing and newly-acquired hospitals. BGH is expected to expand its hospital network without a material deterioration in its financial profile. In addition, TRIS Rating expects BGH to increase the patient volume at each hospital and successfully integrate any newly-acquired hospitals into its network.

## Bangkok Dusit Medical Services PLC (BGH)

<b>Company Rating:</b>	AA-
<b>Issue Ratings:</b>	
BGH153A: Bt2,500 million senior unsecured debenture due 2015	AA-
BGH166A: Bt1,000 million senior unsecured debenture due 2016	AA-
BGH233A: Bt4,000 million senior unsecured debenture due 2023	AA-
<b>Rating Outlook:</b>	Stable

### KEY RATING CONSIDERATIONS

#### Strengths/Opportunities

- Largest private hospital operator in Thailand
- Large and diversified customer base with wide geographic coverage
- Well-known hospital brands offering high quality services
- Experienced management team
- Growing demand for healthcare services

#### Weaknesses/Threats

- Intense competition in both local and international markets
- Large capital expenditures needed for expansion

### CORPORATE OVERVIEW

BGH is the largest private hospital operator in Thailand, established in 1969. Bangkok Hospital, its first private hospital, commenced operation in 1972. BGH was listed on the Stock Exchange of Thailand (SET) in 1991.

In 2004, BGH acquired Samitivej PLC, Bangkok Hadyai Co., Ltd., and Bangkok Phuket Hospital Co., Ltd. In 2005, the company launched Bangkok Heart Hospital and Wattanosoth Hospital, which focus on cardiac and cancer treatments, respectively. These two hospitals are located in the same area as Bangkok Hospital. Together, the three hospitals comprise the Bangkok Medical Center (BMC). BGH acquired Bangkok Pattaya Hospital Co., Ltd., Bangkok Rayong Hospital Co., Ltd., Wattanavej Co., Ltd.

(BCH), and Bangkok Trat Hospital Co., Ltd. in 2006. During 2007-2008, BGH opened Royal Angkor International Hospital and Royal Rattanak Hospital to provide services for foreign patients in Cambodia.

**Table 1: Hospitals in BGH's Portfolio as of Sep 2014**

Hospital	Abbrev.	Ownership (%)
Bangkok Hospital		100.0
Bangkok Heart Hospital	BMC	100.0
Wattanosoth Hospital		100.0
Bangkok Hua Hin Hospital	BHN	100.0
Bangkok Chiangmai	BCM	100.0
Bangkok Pattaya Hospital	BPH	97.3
Bangkok Rayong Hospital	BRH	100.0
Bangkok Chantaburi Hospital	BCH	99.7
Bangkok Hospital Trat	BTH	99.8
Bangkok Phuket Hospital	BPK	99.7
Bangkok Hat Yai Hospital	BHH	98.8
Bangkok Hospital Samui	BSH	100.0
Bangkok Prapadaeng Hospital	BPD	79.0
Bangkok Ratchasima Hospital	BKH	90.9
Bangkok Pakchong Hospital	BHP	90.4
Bangkok Udon Hospital	BUD	100.0
Bangkok Phisanulok Hospital	BPL	100.0
Bangkok KhonKaen Hospital	BKH	100.0
Samitivej Sukhumvit Hospital	SVH	95.8
Samitivej Srinakarin Hospital	SNH	95.8
Samitivej Sriracha Hospital*	SSH	69.8
Samitivej Thonburi Hospital**	STH	55.7
BNH Hospital	BNH	91.5
Phyathai 1 Hospital***	PYT1	100.0
Phyathai 2 Hospital***	PYT2	99.2
Phyathai 3 Hospital***	PYT3	98.2
Phyathai Sriracha Hospital***	PYTS	74.1
Phyathai Nawamin Hospital****	PNWM	99.8
Paolo Memorial Paholyothin Hospital	PMED	100.0
Paolo Memorial Samutprakarn Hospital	PSAMUT	93.4
Paolo Memorial Chokchai 4 Hospital	PCHOK	85.7
Sanamchan Hospital	SNC	100.0
Thepakorn Hospital*****	TPK	44.5
Phuket International Hospital	PKI	100.0
Royal Phnom Penh Hospital	RPPH	100.0
Royal Angkor International Hospital	RAH	80.0
Royal Rattanak International Hospital	RRH	70.0

Source: BGH

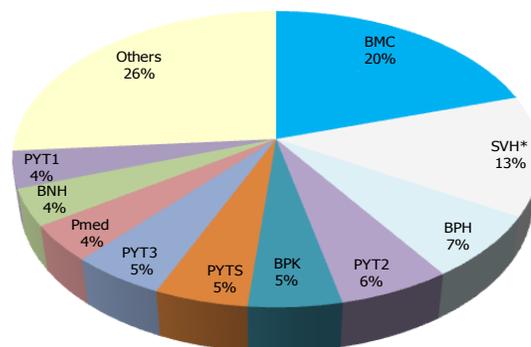
- \* Indirect shareholding through Samitivej PLC
- \*\* Formerly known as Krungdhon Hospital (KDH)
- \*\*\* Indirect shareholding through Prasit Patana PLC (PPCL), in which BGH owns 98.4%
- \*\*\*\* Formerly known as Paolo Memorial Nawamin Hospital
- \*\*\*\*\* Indirect shareholding through Bangkok Hospital Sanamchan Co., Ltd.

Revenues from hospital operations increased sharply in 2011 due to the share swap merger with Health Network PLC (HNC). HNC was the major shareholder of Phyathai Hospital and Paolo Memorial Hospital Group.

In 2013, BGH purchased more shares of Thonburi Medical Centre PLC (KDH), formerly known as Krungdhon Hospital. Also in 2013, BGH acquired the entire business of Ratanavej Hospital in Phitsanulok province.

As of July 2014, the major shareholder of BGH was Dr. Prasert Prasarttong-osoith with a shareholding of 23.2%. Currently, 37 hospitals, with 4,707 available beds, are operated under the BGH umbrella.

**Chart 1: BGH's Revenue Breakdown by Hospital (Jan-Jun 2014)**



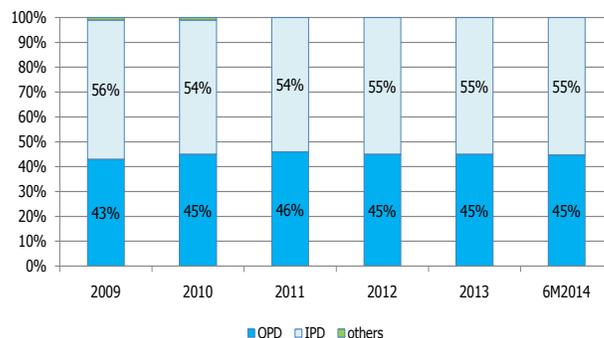
Source: BGH

\* SVH includes Samitivej Sukhumvit and Samitivej Srinakarin

For the first half of 2014, revenues from BGH's five key hospitals, BMC, SVH, BPH, BPK, PYT2, and BPK comprised approximately 51% of BGH's total revenue. In terms of earnings before interest, tax, depreciation, and amortization (EBITDA), the same five hospitals comprised 56% of EBITDA.

Revenues from the outpatient department (OPD) comprised approximately 45% of total revenues, while revenues from the inpatient department (IPD) contributed 55%.

**Chart 2: BGH's Revenue Contribution by Service Type**

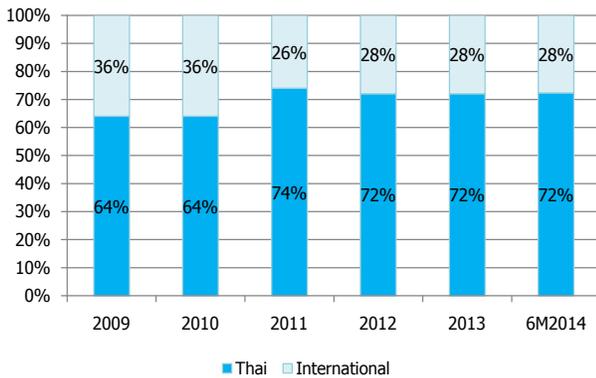


Source: BGH

Revenue from Thai patients contributed about 72% of total revenue from hospitals, with the remainder (28%) from international patients. BGH's top foreign patient

group are from Japan, the United Kingdom (UK), Myanmar, Australia, and the United States (US), comprising about 10% of total revenue for the first six months of 2014. Of BGH's total revenue, 66% is from self-pay patients, 27% is from insurance payments and corporate contracts, and the remainder is from social security and others.

**Chart 3: BGH's Revenue Contribution by Patient Nationality**



Source: BGH

As of October 2014, 13 hospitals plus one clinic of BTH under BGH have achieved JCI accreditation. Thirteen hospitals are Bangkok Hospital Medical Center (BMC) which includes Bangkok Hospital, Bangkok Heart Hospital, and Wattanosoth Hospital, SVH, SNH, SSH, BNH, BPK, BPH, BHN, PYT2, BSH, and PKI.

**RECENT DEVELOPMENTS**

▪ **Acquired Sanamchan Hospital**

In August 2014, BGH acquired the entire business of Sanamchan Hospital Co., Ltd. (Sanamchan), via its subsidiary -- Bangkok Hospital Sanamchan Co., Ltd. The total investment was Bt3,655 million, funded by new borrowings.

Sanamchan operates Sanamchan Hospital, a private hospital in Nakorn Pathom province. Sanamchan also owns a land and building for the operation of Muang Petch-Thonburi Hospital (Muang Petch), a 44.5% stake in Thepakorn Hospital Co., Ltd. (Thepakorn), and a 25% stake in G. Wasupol Co., Ltd. which operates Muang Ratch Hospital (Muang Ratch).

Sanamchan Hospital (198 beds), Muang Petch Hospital (255 beds), and Thepakorn Hospital (100 beds) are secondary care hospitals targeting middle income patients in Nakorn Pathom and Petchburi provinces. In 2013, Sanamchan's revenues reached Bt800 million, and net profit was Bt120 million. In the same period, Thepakorn generated Bt106 million in revenues and Bt11 million in net profit. BGH's investment in Sanamchan Group will allow BGH to serve medium income patients

in western part of Thailand. In addition, it has potential referrals from the Sanamchan Hospital Group to BGH's hospitals in Bangkok as Nakorn Pathom and Petchburi provinces are not far from Bangkok.

▪ **Acquired Phuket International Hospital**

In October 2014, BGH acquired the entire business of Phuket International Hospital Co., Ltd. (PKI), which operates private hospitals in Phuket province. The total investment was Bt3,559 million, funded by new borrowings.

PKI operates Siroroj Hospital, a 151-bed private hospital in Phuket province. PKI targets middle income patients in Phuket and the neighboring provinces. In 2013, PKI's revenues reached approximately Bt1,000 million, and net profit was Bt110 million.

▪ **Purchased shares in Save Drug**

In October 2014, BGH purchased 100% of Save Drug Center Co., Ltd. (Save Drug), via its subsidiary, Bangkok Save Drug Co., Ltd. The total investment was about Bt280 million.

Save Drug sells medicine, food supplements, plus medical supplies and equipment, under the "Save Drug" brand. It has 107 stores and branches nationwide. The investment in Save Drug is in line with BGH's strategy to expand its non-core business activities in order to catch opportunities in the pharmaceuticals industry.

▪ **Issuance of convertible debentures**

In September 2014, BGH issued Bt10,000 million in zero-coupon convertible debentures. The debentures are unsecured and unsubordinated convertible bonds which may be converted into ordinary shares of BGH. The conversion price is fixed at Bt21.045 per newly issued ordinary share. The debentures will mature in five years, on 18 September 2019.

The proceeds from this debentures issue will be used to repay the debt incurred for the acquisition of Sanamchan, BGH's investment in PKI, and BGH's working capital needs. TRIS Rating treats the debentures as long-term debts until the time when the debentures are converted to ordinary shares.

**BUSINESS ANALYSIS**

BGH's solid business profile reflects its very strong market position as the largest private hospital operator in Thailand. BGH's competitive strength reflects its large franchise network and the diversity of services it provides, plus its enhanced customer base, and geographic diversity. In Thailand, aging population is rising. Demand for healthcare services continues growing and is more resilient to economic downturn.

▪ **Largest private hospital operator in Thailand, with well-established brands**

BGH has the largest hospital referral network, covering 37 hospitals throughout Thailand. BGH has the largest pool of physicians, nurses, and clinical staff in the industry. In 2014, BGH has more than 8,000 doctors and about 6,000 nurses across its network of hospitals.

BGH’s wide customer base in several areas has supported its strong business profile. BGH targets medium to premium local and foreign patients. In addition, BGH’s customer base has extended into the social security and civil servant segments. BGH’s diverse customer base help stabilize its operating performance.

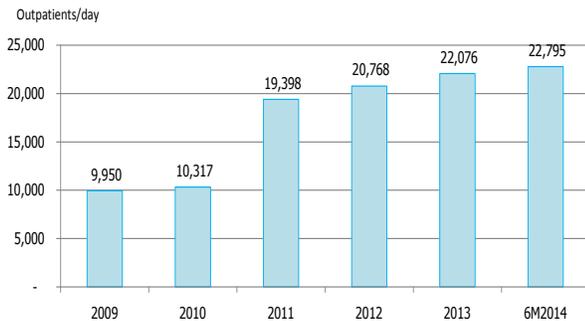
BGH holds five well-established hospital brands. The major domestic brands are Bangkok Hospital, Samitivej Hospital, BNH Hospital, Phyathai Hospital, and Paolo Memorial Hospital. These key hospital brands are well-known among Thai patients because of their strong medical teams and the high-quality services offered at each hospital.

With its extensive hospital network, BGH has gradually become less dependent on revenue from BMC. Revenue from BMC, as a percentage of total revenue, declined from 31% in 2010 to about 20% during 2012 through the first half of 2014. BGH plans to add seven more hospitals to its network within 2016.

▪ **Strong growth in patient volume**

BGH’s performance has remained solid, despite facing a domestic economic slowdown and political uncertainty last year. Outpatient visits per day for 2013 and the first six months of 2014 were 22,076 persons and 22,795 persons, respectively.

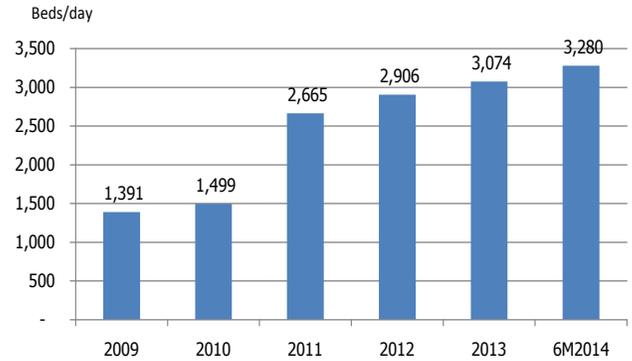
**Chart 4: BGH’s Outpatient Visits Per Day**



Source: BGH

Outpatient visits grew by about 7% per annum. The average daily census climbed from 2,941 patients in 2012, to 3,074 patients in 2013, and 3,280 patients for the first half of 2014.

**Chart 5: BGH’s Average Daily Census**



Source: BGH

The revenue from outpatients and inpatients each grew by about 10% during 2013 through the first half of 2014. The growth came from across BGH’s network of hospitals. Of all BGH’s hospitals, the revenues at hospitals outside Bangkok, such as BHN, BCH, and BUD, grew at an annual rate of more than 15%.

▪ **Experienced management team**

BGH’s management team has more than a decade of experience in the healthcare industry. The competence of the management team has allowed BGH to maintain its market-leading position. The management team has a proven track record in making successful investments, as well as a successful record of mergers and acquisitions. The team also has proven its ability to plan and execute its strategy to improve the operating performance of its hospitals. Moreover, BGH can manage its capital structure appropriately, despite making several debt-funded investments and acquisitions.

▪ **Extensive hospital referral network**

BGH has expanded its network of hospitals. During 2014, BGH opened new hospitals, i.e., Bangkok Chiangmai Hospital, Bangkok KhonKaen Hospital, and Royal Phnom Penh Hospital (in Cambodia). Bangkok Chiangmai Hospital is BGH’s medical hub in the northern region of Thailand. Royal Phnom Penh Hospital (RPPH) is BGH’s major hospital in Cambodia. At the same time, BGH has widened its customer base by adding more secondary care hospitals. During 2014, BGH acquired Sanamchan Hospital (SNC) coupled with Thepakorn Hospital (TPK), plus newly-acquired Phuket International Hospital (PKI). The financial results of these three hospitals will be consolidated into BGH’s financial statement in the second half of 2014. These three hospitals use their original brands as their brand names are familiar to patients in their service areas.

BGH is now building seven new hospitals as shown in Table 2.

**Table 2: BGH's Hospitals under Construction**

Hospitals	Total Beds	1 <sup>st</sup> Phase	Project Details	Commission Date
1. Bangkok Hospital Chinatown	58	24	Basic tertiary care hospital aiming to tap into affluent ethnic Thai-Chinese residents	Q42014
2. Dibuk Hospital	100	29	Secondary care hospital targeting middle income patients	Q42014
3. Sri Rayong Hospital	195	25	Secondary care hospital targeting middle income patients	Q42014
4. Muang Petch Hospital	255	50	Secondary care hospital targeting middle income patients	2015
5. Samitivej Chonburi Hospital	220	159	Basic tertiary care hospital targeting patients living in Chonburi	2015
6. Paolo Rangsit Hospital	150	100	Secondary care hospital targeting middle income patients living in Rangsit and Pathum Thani area	2015
7. Jomtien Hospital	250	100	Secondary care hospital targeting middle income patients	2016

Source: BGH

The company has a target to complete 50 hospitals within 2016. Number of total beds across its network will rise to 7,000 beds. By adding more secondary care hospitals, BGH can reach more patients at a lower investment cost. These secondary care hospitals will connect with BGH's medical hub hospitals in each region. BGH's larger patient base will benefit the company by bringing greater cost effectiveness.

▪ **Healthcare expenditures are expected to rise**

The Thai healthcare industry has grown steadily over the past 10 years. The CAGR of healthcare expenditures was around 6.5% from 2002 through 2012. Nationwide, healthcare expenditures rose from around Bt214 billion in 2002 to Bt402 billion in 2012. The growth was driven mainly by the public sector. After the introduction of the universal healthcare scheme in 2002, Thai citizens are covered by at least one of three public health protection schemes. The three schemes are the universal healthcare scheme, covering 75% of the population, the social security scheme (16%), and the civil servant medical benefit scheme (8%). Because of the expanded coverage, the government healthcare expenditures increased from around 63% of total healthcare expenditures in 2002 to around 75% in the past five years.

Currently, Thailand is considered an aging society because the population aged more than 60 years old are accounted for more than 10% of the total population. The National Economic and Social Development Board (NESDB) estimated that number of people aged 60 years old 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 from both the public and private sectors.

▪ **Revenues from foreign patients remained growing**

Thailand is regarded as the most competitive destination for medical tourism, due to the availability of sophisticated medical care and treatments, lower costs, service-minded attitude of the Thai people, and the fact that Thailand is an attractive tourist destination. The private healthcare services available in Thailand have been widely accepted by foreign patients and international health insurance companies. The most popular medical services include health check-ups, cosmetic surgery, and dentistry. Most foreign patients are from Japan, the UK, the US, and the United Arab Emirates (UAE). The number of foreign patients from neighboring countries is also growing significantly, especially patients from Myanmar.

BGH's revenue from foreign patients contributed about 28% of its hospital revenue during the last two years. The revenue from foreign patients remained strong, despite the Thai economic slowdown and political uncertainty last year. Thanks for its well geographic diversity. BGH's revenue from foreign patients grew by 11% in 2013 and by 6% y-o-y for the first six months of 2014. In terms of the number of foreign patients, BGH's foreign outpatients rose by 7% per annum in 2013. The number of its foreign inpatients grew by 7% y-o-y in 2013. For the first half of 2014, the number of foreign inpatients remained flat from the same period in the previous year in light of the political uncertainty.

**FINANCIAL ANALYSIS**

BGH's financial profile is characterized by sound operating performance, an increasing ability to generate cash flow, and ample liquidity. A larger base of customers brings good prospects in terms of revenue, cash flow, and profitability. These strengths are partly mitigated by the large capital expenditures required for its expansion efforts. However, BGH can maintain an appropriate capital structure.

▪ **Revenue is expected to continue growing**

BGH's financial profile is underpinned by its strong growth in revenue and large revenue base. Revenue from hospital operations grew at a CAGR of 18% during the five-year period of 2008-2013. Revenue from hospital operations grew by 11% y-o-y to Bt49,170 million in 2013, and Bt26,078 million for the first six months of 2014, respectively. The rise was mainly due to the growth in patient volume, rising prices for healthcare and severity of

disease, and the consolidation of the new hospitals BGH acquired.

During the next three years, TRIS Rating's base case expects BGH's revenue to grow by an average of 10% per annum. Revenue is expected to range between Bt60-Bt75 billion per annum during 2015-2017. The growth drivers are the opening of its new hospitals and growth in patient volume across its hospital network. Revenue from non-hospital services is expected to grow as well, as BGH expands in the non-hospital service segment.

▪ **Relatively stable profit margin**

BGH's operating margin has been relatively stable, ranging from 22%-22.5% during 2009-2012. In 2013, the operating margin slightly dropped to 20.4%, due to higher administrative expenses and expenses for doctors and clinical staff as BGH prepared the healthcare resources needed for its new hospitals last year. However, the margin for the first six months of 2014 improved to 21.9%, as the company focused its efforts on controlling costs.

During 2015-2017, TRIS Rating's base case expects BGH to keep its operating margin at 20%-22%. This assumption reflects the expectation that revenue will grow and costs will stay under control. The cost saving could come from improvements in asset utilization and shared services within the group. The operating margin may be higher, should BGH benefit from lower selling and administrative expenses.

▪ **Improved cash flow protection**

BGH's ability to generate cash was improved. FFO climbed from Bt8,819 million in 2012 to Bt9,411 million in 2013. The FFO to total debt ratio was relatively stable,

ranging from 40%-44% during 2010 through the first half of 2014. The EBITDA interest coverage ratio improved from 10 times in 2010 to 14.8 times for the first six months of 2014, supported by BGH's strong profitability.

BGH is expected to generate Bt10,000-Bt13,000 million in FFO per annum during 2015-2017. The company has about Bt2,000-Bt4,000 million in debts maturing each year during 2015-2017. The level of FFO is sufficient to service the debt obligations which will be due over the next 12 months.

▪ **Appropriate capital structure, but more funds are needed for investment**

BGH's total debt rose from Bt19,916 million at the end of 2012 to Bt23,421 million as of June 2014 due to the investments in new hospitals. However, the debt to capitalization ratio remained relatively stable at about 35% per annum during 2012 until the end of June 2014.

During the next three years, TRIS Rating's base case expects BGH to spend about Bt30,000 million in capital expenditures. The capital BGH needs to fund its investments will be provided in part by its operating cash flow and the cash it receives from the issuance of Bt10,000 million in convertible debentures. The convertible debentures are zero-coupon debentures, which will keep interest expenses low. In addition, if the convertible debentures are converted to ordinary shares, the value of the debentures converted will be added to BGH's equity base.

Going forward, BGH is expected to manage its capital structure conservatively and maintain an adequate financial cushion. The debt to capitalization ratio is expected to stay below 45% during the next three years.

### Financial Statistics and Key Financial Ratios\*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Jun 2014	2013	2012	2011	2010	2009
Revenues from sales and services	26,931	50,615	45,478	36,234	23,734	21,752
Gross interest expense	453	957	849	770	584	641
Net income from operations	3,576	6,113	6,142	3,907	2,295	1,725
Funds from operations (FFO)	5,473	9,411	8,819	6,772	4,436	4,059
Capital expenditures	4,092	7,344	5,791	3,560	1,192	1,496
Total assets	78,407	76,399	68,461	58,792	32,197	30,359
Total debts	23,421	22,801	19,916	16,792	10,751	12,256
Shareholders' equities	43,373	42,644	38,387	33,417	16,283	14,747
Operating income before depreciation and amortization as % of sales	21.9	20.4	22.5	22.2	22.2	22.2
Pretax return on permanent capital (%)	14.3 **	14.0	16.3	16.5	13.9	11.6
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	14.8	12.5	13.9	11.8	10.1	8.2
FFO/total debt (%)	43.6 **	41.3	44.3	40.3	41.3	33.1
Total debt/capitalization (%)	35.1	34.8	34.2	33.4	39.8	45.4

\* 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](http://www.trisrating.com)

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