

BANGKOK DUSIT MEDICAL SERVICES PLC

No. 35/2015

12 June 2015

Company Rating:	AA-
Issue Rating:	
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

Contacts:

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Jutatip Chitphromphan
jutatip@trisrating.com

Suchada Pantu, Ph. D.
suchada@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company and current senior unsecured debenture ratings of Bangkok Dusit Medical Services PLC (BDMS) at "AA-". At the same time, TRIS Rating assigns the rating of "AA-" to BDMS's proposed issue of up to Bt2,000 million in senior unsecured debentures. The proceeds from the new debentures will be used for general corporate purposes and debt repayment. The ratings reflect BDMS's leading market position as the largest private hospital operator in Thailand, extensive referral network of hospitals, and its sound operating performance with strong cash flow generation. BDMS's ratings continue to reflect its experienced management team and capable physicians. These strengths are partially offset by the large capital expenditures BDMS will make in the medium term and competition in the local and international healthcare markets.

BDMS was established in 1969. BDMS was listed on the stock exchange of Thailand (SET) in 1991. The company is the largest private hospital operator in Thailand, with a strong network of hospital brands. Currently, BDMS operates 41 hospitals, under five well-known hospital brands, one international hospital brand, and other six local hospital brands. BDMS's five key hospital brands are Bangkok Hospital (19 hospitals), Samitivej Hospital (5), BNH Hospital (1), Phyathai Hospital (5), and Paolo Memorial Hospital (3). These five brands are well-known among Thais. Two international hospitals in Cambodia are run under the Royal International Hospital brand. Other six local brands are Sanamchan Hospital, Tepakorn Hospital, Phuket International Hospital, Sri Rayong Hospital, Dibuk Hospital, and Muang Petch Hospital. BDMS had a service capacity of 5,507 inpatient beds at the end of March 2015. Its customer base covers the mid- to high-end segments in various locations.

BDMS's business profile is very strong, reflecting its leading market position as the largest private hospital operator in Thailand. BDMS'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. BDMS's focus on tertiary care helps boost revenue and increase the utilization of its medical equipment and laboratories. Economies of scale, through the pooling lab services and the centralized purchasing of medicines, medical supplies, and key medical equipments, is expected to yield benefits in the cost effectiveness.

BDMS's performance has remained sound and solid. Revenue from hospital operations grew at a compound annual growth rate (CAGR) of 18% from 2009 through 2014. For the first three months of 2015, total revenues from hospital operations were Bt14,845 million, up by 10% year-on-year (y-o-y). The rise was driven by increase in patient volume, a rise in patient referral, and the consolidation of new network hospitals. For the first three months of 2015, outpatient visits per day amounted to 24,434 persons, or a rise of 7.1% y-o-y. The average daily census (the average number of inpatients per day) rose by 6.6% y-o-y to 3,618 patients. About 56% of patient revenue came from inpatients; the remainder came from outpatients. Self-pay patients contributed about 63% of total revenue.

CreditUpdate reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The *CreditUpdate* occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The *CreditUpdate* announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

CreditUpdates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

During 2015-2017, TRIS Rating’s base case expects BDMS’s revenue to grow by an average of 10% per annum. The key growth drivers are the new hospitals added to BDMS’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 21.5% in 2014, and 23.6% for the first three months of 2015, compared with about 20.4% in 2013. The rise in operating margin was due to its strong growth in revenues and its efficient cost control. During 2015-2017, TRIS Rating expects BDMS’s operating margin to maintain at about 22%.

BDMS’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 Bt10,832 million in 2014, climbing from Bt9,411 million in 2013. During 2015-2017, TRIS Rating’s base case expects BDMS to generate FFO in a range of Bt11,000-Bt13,000 million per annum. The FFO to total debt ratio is expected to be in the range of 35%-45% during 2015-2017.

BDMS plans to expand its network to 50 hospitals within 2017. To pursue its growth strategy, BDMS continues to build new hospitals and acquired other hospitals to expand its patient base in several areas. The expansion pushed total debt outstanding to rise from Bt22,801 million at the end of 2013 to Bt28,991 million at the end of March 2015. However, with its large capital base and conservative financial policy, BDMS kept the debt to capitalization ratio below 40% during 2013 through March of 2015. During 2015-2017, TRIS Rating expects BDMS to spend a total of capital expenditures of about Bt30,000 million. The capital BDMS needs to fund its investments will be provided in part by its operating cash flow. BDMS 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 BDMS will maintain its leading position in both the domestic and regional private hospital markets and continue to deliver solid operating performance. BDMS is expected to expand its hospital network without a material deterioration in its financial profile. The credit ratings of BDMS could be under downward pressure if BDMS makes any aggressive debt-funded investment or BDMS's profitability deteriorated for a prolonged period of time. The ratings could be revised upward should its financial profile improves significantly from its current level so that its FFO to total debt ratio stays at around 60%-70% on a sustainable basis.

Bangkok Dusit Medical Services PLC (BDMS)

Company Rating:	AA-
Issue Ratings:	
BDMS166A: Bt1,000 million senior unsecured debentures due 2016	AA-
BDMS233A: Bt4,000 million senior unsecured debentures due 2023	AA-
Up to Bt2,000 million senior unsecured debentures due within 2025	AA-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Mar 2015	2014	2013	2012	2011	2010
Revenues from sales and services	15,548	56,065	50,615	45,478	36,234	23,734
Gross interest expense	270	972	957	849	770	584
Net income from operations	2,289	7,394	6,113	6,142	3,907	2,295
Funds from operations (FFO)	3,506	10,832	9,411	8,819	6,772	4,436
Capital expenditures	1,647	7,798	7,344	5,791	3,560	1,192
Total assets	93,427	93,370	76,399	68,461	58,792	32,197
Total debts	28,991	31,673	22,801	19,916	16,792	10,751
Shareholders' equities	51,287	48,998	42,644	38,387	33,417	16,283
Operating income before depreciation and amortization as % of sales	23.6	21.5	20.4	22.5	22.2	22.2
Pretax return on permanent capital (%)	14.5**	14.1	14.1	16.3	16.5	13.9
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	15.6	14.4	12.5	13.9	11.8	10.1
FFO/total debt (%)	38.7**	34.2	41.3	44.3	40.3	41.3
Total debt/capitalization (%)	36.1	39.3	34.8	34.2	33.4	39.8

* 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

© Copyright 2015, 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, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited. 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 <http://www.trisrating.com/en/rating-information/rating-criteria.html>.