

BANGKOK DUSIT MEDICAL SERVICES PLC

No. 7/2017

25 January 2017

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

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Rating Rationale

TRIS Rating affirms the company and outstanding 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 Bt6,000 million in senior unsecured debentures and the additional greenshoe portion of up to Bt1,000 million. The proceeds from the new debentures will be used for investment, general corporate purposes, and debt repayment. The ratings reflect BDMS's leading market position as the largest private hospital operator in Thailand, its extensive hospital network and solid reputations of its hospital brands, as well as its experienced management team and capable physicians. The ratings also take into consideration its sound operating performance and a moderate financial risk profile. These strengths are partially offset by competition from both local and international providers of healthcare services and the large capital expenditures needed for BDMS's expansion plans.

BDMS is the largest private hospital operator in Thailand. BDMS currently operates 44 hospitals nationwide. The company's five key hospital brands are well-known in the Asia-Pacific region: Bangkok Hospital (20 hospitals), Samitivej Hospital (5), BNH Hospital (1), Phyathai Hospital (5), and Paolo Hospital (5). Two international hospitals in Cambodia are run under the Royal International Hospital brand. The remaining six hospitals carry local brand names. BDMS has a service capacity of 5,928 inpatient beds. Its customer base covers the middle-income to high-end segments in various locations.

BDMS's strong business profile reflects its ability to provide a wide range of services, broad customer base and the locations of its hospitals, as well as the solid reputations of its hospital brands. BDMS covers the delivery of comprehensive array of healthcare service spanning all levels and intensity of care. The company's competitive advantage stems from its extensive referral network and the largest pool of physicians and nurses in Thailand. BDMS also benefits through economies of scale by pooling lab services and the centralized purchasing of medicines and medical equipment.

Revenue from hospital operations for the first nine months of 2016 was Bt48,567.7 million, rising by 10% year-on-year (y-o-y). The rise was driven by an increase in patient volume together with intensity and pricing, plus the consolidation of new hospitals. The growth in revenues at the existing hospitals, or organic growth, was around 7% y-o-y. About 54% of patient revenue came from inpatients; the remainder came from outpatients. The operating margin (operating income before depreciation and amortization as a percentage of revenue) was 20.8% for the first nine months of 2016.

BDMS aims to be one of the key healthcare service providers in the Asia-Pacific region. BDMS has built its hospital network by building new hospitals and acquiring existing hospitals, targeting to have 50 hospitals in the next few years. The company is now building two new hospitals, Bangkok Hospital Surat and Bangkok Hospital Chiang Rai, which are expected to be opened in 2017 and 2018, respectively. These two hospitals will add 230 new beds in total. The total investment is about Bt1,700 million. In addition, BDMS has land plots in Krabi province and in the Khaoyai area, ready sites for new hospitals.

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.

BDMS is upgrading nine major hospitals in several regions of Thailand and in Cambodia to be "Centers of Excellence" (COE). The upgraded hospitals will increase sophistication level of care to capture both domestic and foreign patients. The total investment over the 5-year period will be nearly Bt3,000 million. BDMS is expanding the Bangkok Hospital Headquarter (BHQ), in a project called the "Phoenix Project". The expansion adds specialized healthcare treatments such as neurological treatments, spinal treatments, and rehabilitation. The project will cost about Bt4,200 million and will add 220 more beds capacity when it is completed in 2018.

In September 2016, BDMS acquired the land and buildings in the NaiLert Park project at a cost of Bt10,800 million. BDMS plans to develop the land and buildings to be a holistic medical service center called "BDMS Wellness Clinic". The budget for renovation and other expenses are around Bt2,000 million. BDMS Wellness Clinic will capture opportunities in two areas where demand is increasing: preventive medicine, and longevity and anti-aging. This project will open in 2017. Recently, BDMS acquired the entire business of Mayo Polyclinic Co., Ltd. (MYPC) via its subsidiary -- Paolo Medic Co., Ltd. (Paolo). The total investment was Bt1,390 million, funded by cash and new borrowings. MYPC operates a private hospital called Mayo Hospital which is a 162-bed secondary care hospital, targeting middle-income patients. Through its horizontal and vertical expansion efforts, capacity is expected to be around 7,000 available beds within 2018. BDMS's extensive network will strengthen its competitive position, expand its customer base, and enable the company to compete more effectively in the healthcare service industry.

BDMS's financial risk is moderate, reflecting its sound operating performance, a rise in cash flow, satisfactory liquidity, and moderate use of debt. Funds from operations (FFO) rose from Bt10,832 million in 2014 to Bt12,076 million in 2015, and stood at Bt9,213 million for the first nine months of 2016. Liquidity remains sufficient, as measured by the FFO to total debt ratio of around 35%-40% in the last three years through the first nine months of 2016. Total debt was Bt32,729 million as of September 2016, up from Bt29,998 million in 2015 as BDMS continues to expand its network. However, the debt to capitalization ratio remained below 40% during the last three years and stood at 36.4% as of September 2016, thanks to BDMS's large capital base and strong cash flow.

During 2017-2019, TRIS Rating forecasts BDMS will deliver a sound operating performance. Revenue is expected to grow by 8%-10% per annum, driven by growth in patient volume and the new hospitals added to the network. The operating margin may be pressured by fixed operation cost, depreciation and amortization charges for new hospitals, and a ramp up of the wellness clinic. However, BDMS is expected to manage its expenditures and continue its cost saving efforts, in order to maintain its operating margin. FFO is projected to be in a range of Bt12,000-Bt15,000 million per annum. Planned capital expenditures over the next three years will be around Bt40,000 million. The investments will be funded in part by operating cash flow. Despite the heavy investments, the 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 domestic and regional private hospital markets and continue delivering sound financial results.

The credit ratings of BDMS could be under downward pressure if BDMS makes any aggressive debt-funded investments so that its debt to capitalization ratio will stay higher than 45% or the FFO to total debt will stay below 30% on a sustained period. The rating downside case would be triggered if BDMS's profitability deteriorates for a prolonged period of time. The ratings could be revised upward should its financial profile improve significantly from the current level, leading the FFO to total debt ratio to be over 50% on a sustained period.

Bangkok Dusit Medical Services PLC (BDMS)

Company Rating:	AA-
Issue Ratings:	
BDMS233A: Bt4,000 million senior unsecured debentures due 2023	AA-
BDMS256A: Bt2,000 million senior unsecured debentures due 2025	AA-
BDMS266A: Bt3,000 million senior unsecured debentures due 2026	AA-
Up to Bt6,000 million in senior unsecured debentures and additional greenshoe portion of up to Bt1,000 million due within 2027	AA-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Sep 2016	2015	2014	2013	2012	2011
Revenues from sales and services	50,635	62,857	56,065	50,615	45,478	36,234
Gross interest expense	635	1,136	972	957	849	770
Net income from operations	6,201	7,709	7,394	6,113	6,142	3,907
Funds from operations (FFO)	9,213	12,076	10,832	9,411	8,819	6,772
Capital expenditures	5,676	5,976	7,798	7,344	5,791	3,560
Total assets	105,111	102,335	93,370	76,399	68,461	58,792
Total debts	32,729	29,998	31,673	22,801	19,916	16,792
Shareholders' equities	57,304	56,175	48,998	42,644	38,387	33,417
Operating income before depreciation and amortization as % of sales	20.8	21.1	21.5	20.4	22.5	22.2
Pretax return on permanent capital (%)	13.4**	13.2	14.1	14.1	16.3	16.5
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	19.2	13.6	14.4	12.5	13.9	11.8
FFO/total debt (%)	38.1**	40.3	34.2	41.3	44.3	40.3
Total debt/capitalization (%)	36.4	34.8	39.3	34.8	34.2	33.4

* Consolidated financial statements

** Annualized with trailing 12 months

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