

VEJTHANI PLC

No. 121/2023
3 July 2023

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 22/07/22

Company Rating History:		
Date	Rating	Outlook/Alert
22/07/22	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Vejthani PLC (VTN) at “BBB”, with a “stable” rating outlook. The rating reflects the company’s proven track record of undertaking comprehensive healthcare in the global medical tourism market and its standing as one of the leading private hospitals for the middle-to high-income patient segments in Thailand. The rating also incorporates a strong recovery of fly-in patient visits post pandemic. On the contrary, the rating is weighed down by the company’s asset concentration risk, as well as the intense competition in the private healthcare industry. The rating also takes into consideration the looming expenditures needed to support its growth plans and the execution risks associated with the new hospital projects.

KEY RATING CONSIDERATIONS

Revenue growth from international patients to continue

Vejthani Hospital is recognized among international patients for its tertiary healthcare, particularly for orthopedic medical treatments, surgery for the spine, joint replacements, and in vitro fertilization (IVF). VTN has adopted digital and new medical innovations while maintaining skilled physicians and competent staff with high-quality of services, enabling it to undertake complex cases. Normally, about 55% of its total revenue is derived from international patients.

After the easing of lockdown measures and the country’s reopening, a resumption of international travel has supported the recovery of medical tourism. VTN has reported a robust recovery in volume and revenues from international patients, boosted by pent-up demand for complex healthcare services. Overseas outpatient visits reached 251 persons per day during the first three months of 2023, up from 226 persons in 2019.

In 2022, VNT’s revenue from international patients improved significantly to THB1.55 billion, a 95% increase from 2021 and above the pre-pandemic level of THB1.48 billion in 2019. For the first quarter of 2023, revenue from international patients continued to grow by nearly 30% year-on-year (y-o-y) to about THB400 million. Revenues from patients, particularly from Thailand’s neighboring counties, i.e., Cambodia, Myanmar, and Vietnam, as well as the Arab patient group such as Oman and the United Arab Emirates (UAE) posted strong growths over 2022 through the first quarter of 2023.

We believe that Thailand’s competitive strengths in healthcare services over other Southeast Asian countries will remain, supported by the location advantage, Thai hospitality, and the Thai government’s strategy to promote the country as a destination for medical tourism. The competitive strengths also lie in the availability of proficient and well-trained physicians and medical staff, good medical facilities, high service quality, and competitive pricing.

During the next three years, we expect the number of fly-in international patients to grow, along with an increase in the number of complex treatments. We expect the number of patients from the Middle East and Thailand’s neighboring countries to continue to increase. The company plans to expand its presence in international markets, especially among the Arab patient groups, such as Kuwait and Saudi Arabia. Patient numbers from Saudi Arabia in particular are expected to continue to rise after Saudi-Thai relations were formally restored in January 2022. Demand from Chinese patients is likely to increase gradually in the second half of 2023.

Sound operating performance

In 2022, VTN's healthcare service revenue rose to THB3.12 billion, an increase of 47% from the previous year. In the first three months of 2023, revenue continued to increase by 8% y-o-y to THB767 million, despite a decline in the number of Thai patients compared with the unusually high levels during the Coronavirus Disease 2019 (COVID-19) period last year.

Earnings rebounded strongly in 2022, after declining during the pandemic. In 2022, VTN generated earnings before interest, taxes, depreciation, and amortization (EBITDA) of nearly THB1 billion, up from THB540 million in 2021. EBITDA margin also improved significantly, rising to 31.4% in 2022, compared with 16%-25% during 2020-2021. VTN's profit margin is relatively high compared with its listed peers whose average profit margin is about 20%.

In our base-line projections covering 2023-2025, VTN's total revenue is expected to grow by 5%-10% annually, driven mainly by higher international patient revenue. Revenue from Thai patients are expected to gradually rebound, boosted by increasingly sophisticated treatments such as surgery, treatments for spinal disorders, and pediatric medicine clinic. In the forecast, we expect VTN's EBITDA margin to be in the 27%-28% range over the next three years. VTN's strategy going forward is to focus on boosting its operating efficiency, improving asset utilization, and adopting artificial intelligence (AI) and digital marketing. However, we expect administrative expenses to increase in line with rising energy and utility costs, and personnel-related expenses.

Exposed to asset concentration risk

VTN generated most of its revenue from one single asset: the Vejthani Hospital, located on Ladprao Road, Bangkok. VTN's revenue base is relatively small compared with its listed peers. The company's revenue has been in the THB2-THB3 billion per annum range over the last three years, representing approximately 2% of total revenue reported by all listed peers. Its profit as measured by EBITDA was THB300-THB980 million per year during the same period.

New hospital to open in the second half of 2023

VTN is developing a new psychiatric hospital in Nonthaburi Province with an investment budget of about THB530 million. The new hospital will provide mental health care facilities that specialize in the treatment of patients with mental illnesses or emotional problems. VTN expects to complete the construction of the green-field hospital project and start providing services within the second half of 2023. Moreover, the company is seeking opportunities to provide superior tertiary care services for future growth.

We view the company's new hospital plan as a means of reducing reliance on revenue from a single asset. However, the expansion may pose operational risks and put pressure on the company's balance sheet, as the new hospital may take a few years to become fully operational and gain acceptance in the psychiatric healthcare.

Leverage to rise during 2024-2026

As of March 2023, VTN's debt totaled nearly THB1 billion, up from about THB770 million at the end of 2022, owing to new borrowings to fund the construction of the new psychiatric hospital building. However, as its earnings improved strongly in 2022, the company's net debt to EBITDA ratio fell to 0.3 times, compared with 1-2 times during 2019-2021. The ratio of funds from operations (FFO) to total debt rose to over 300%.

During the next three years, we expect the company to spend approximately THB400 million per year on facilities and equipment maintenance at Vejthani Hospital. The company also plans to invest about THB260 million in the psychiatric hospital project in 2023. Moreover, VTN is studying the development of a new tertiary care hospital in Bangkok. Investment for this new hospital project, including equipment installation, would be about THB5 billion, with the development planned to take place during 2024-2027. Going forward, we expect VTN's debt level to rise. We project its debt to EBITDA ratio to be about 0.5 times in 2023, then rising to 1.0-2.0 times during 2024-2026.

High proportion of secured debt

As of March 2023, about 70% of VTN's debts was secured. As its secured debt ratio exceeded the 50% threshold according to TRIS Rating's "Issue Rating Criteria", we view that VTN's unsecured creditors are significantly disadvantaged to its secured debt holders with respect to claims against the company's assets.

Adequate liquidity

We assess VTN's liquidity to be adequate over the next 12 months. VTN's primary sources of funds comprise cash and cash equivalents of THB1 billion at the end of March 2023 and projected FFO of about THB750 million in 2023. Funds will be used for capital expenditures and scheduled debt repayments. VTN has about THB170 million in long-term debt payment obligations maturing in 2023. The company's investment budget for 2023 is around THB700 million.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for VTN's operations in 2023-2025 are as follows:

- Revenues to increase by 5%-10% per annum over the next three years.
- EBITDA margin to be in the 27%-28% range.
- Capital spending of THB700 million-THB1.5 billion per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation that VTN will maintain its market position in the medical tourism segment and continue delivering satisfactory financial results. TRIS Rating expects the development of the new hospitals to proceed well within budget. We also expect VTN's financial profile and financial leverage levels to be in line with our forecast.

RATING SENSITIVITIES

A rating upgrade could occur if VTN is able to enlarge its EBITDA to more than THB1 billion on a sustainable basis, and the company successfully diversifies its revenue base in terms of location and/or customer base, while maintaining a healthy financial status. A downward rating action could be triggered if VTN's financial profile deteriorates materially or if the company's operating performance is significantly worse than forecast.

COMPANY OVERVIEW

VTN was established in 1990 and became the public company in 1993. Vejthani Hospital commenced operation in 1994. As of March 2023, the major shareholder of VTN was the Souksakit Family with a combined shareholding of 44.2%

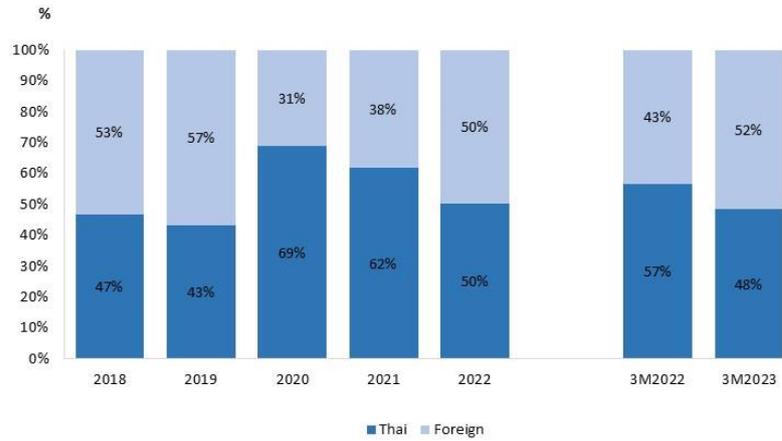
The company is one of the premium private healthcare providers in Thailand, targeting local patients in the middle- to high-income segments and international patients. VTN has a service capacity of 193 inpatient beds. The company delivers healthcare services spanning tertiary, specialized treatment, and complex medical care levels.

VTN recently invested in a new hospital "Bangkok Mental Health Hospital" (BMH) in the greater Bangkok area. The hospital is currently under construction. VTN holds a 56% interest in BMH.

The company's total consolidated revenue was THB3.16 billion in 2022. Normally, around 55% of total healthcare service revenue is derived from international patients. In 2022, foreign patients accounted for 50% of its total revenues. Revenue from the inpatient department (IPD) contributed 60% of the total; the remainder came from outpatient department (OPD). In 2022, self-pay patients made up 44% of its patient revenue, followed by government-contracted patients (29%), and patients covered by health insurance (27%).

KEY OPERATING PERFORMANCE

Chart 1: VTN's Revenue Contribution by Nationality



Sources: VTN

Chart 2: VTN's Revenue Contribution by Service Type



Sources: VTN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	3,161	2,150	1,814	2,764	2,592
Earnings before interest and taxes (EBIT)	762	345	103	443	424
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	988	544	298	651	579
Funds from operations (FFO)	807	447	253	540	478
Adjusted interest expense	37	44	35	34	33
Capital expenditures	353	473	386	389	384
Total assets	4,715	3,816	3,797	3,395	2,551
Adjusted debt	268	716	619	500	405
Adjusted equity	2,972	2,179	1,998	2,017	1,492
Adjusted Ratios					
EBITDA margin (%)	31.26	25.31	16.41	23.56	22.36
Pretax return on permanent capital (%)	20.95	10.34	3.32	17.40	19.56
EBITDA interest coverage (times)	26.42	12.28	8.60	19.23	17.59
Debt to EBITDA (times)	0.27	1.32	2.08	0.77	0.70
FFO to debt (%)	301.00	62.33	40.82	108.13	117.98
Debt to capitalization (%)	8.27	24.74	23.66	19.85	21.34

* Consolidated financial statements

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

Vejthani PLC (VTN)

Company Rating:	BBB
Rating Outlook:	Stable

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