

BANGKOK CHAIN HOSPITAL PLC

No. 192/2020
10 November 2020

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Positive

Last Review Date: 08/11/19

Company Rating History:

Date	Rating	Outlook/Alert
08/11/19	A-	Positive
17/09/09	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Bangkok Chain Hospital PLC (BCH) and the ratings on BCH's senior unsecured debentures at "A-", with a "positive" outlook. The ratings reflect the company's strong competitive position in two key segments: middle-income cash patients, and patients covered by the government social security coverage (SC) scheme, its sound operating performance with high profitability, and adequate liquidity. However, these strengths are partially offset by intense competition from local and international healthcare service providers, exposure to regulatory risk, and the negative effects of the Coronavirus Disease 2019 (COVID-19) pandemic.

KEY RATING CONSIDERATIONS

Strong competitive position in both the cash and SC segments

BCH has sound operating performance and maintains a strong competitive position in both the cash and SC segments. Revenues from the cash patient segment account for around 65% of total patient revenues, while revenues from the SC segment constitute around 35%.

Revenues from the cash patient segment have grown at a compound annual growth rate (CAGR) of 11% over the past five years, reaching THB5.8 billion in 2019. Patient revenues grew across the company's hospital network in 2019. The increased revenues were also driven by the improved performance of the "World Medical Hospital" (WMC) and revenue from the newly-opened "Kasemrad Hospital Ramkhamhaeng" (KH-RAM). WMC, which focuses on high-income cash patients and international patients, recorded a 12% year-on-year (y-o-y) revenue growth in 2019. KH-RAM, which opened in the last quarter of 2018, also posted strong revenue growth, with the patient revenues of THB520 million in 2019, up from THB275 million in 2018.

BCH's revenues from the SC segment reached THB3.1 billion in 2019, an increase of 6% from 2018. The revenues were driven by the increasing number of insured persons and growth in revenue per insured person. The number of insured persons registered with BCH at the end of June 2020 was 887,104, up from 880,447 at the end of 2019, and 804,150 at the end of 2018. Persons registered with the BCH hospital network accounted for 5.4% of all persons registered under the SC scheme. The sizable base of registered persons yields economies of scale and helps sustain the utilization levels of BCH's network of hospitals.

Sustained performance amid the COVID-19 pandemic

The tight control on entries into the country and quarantine requirements for foreign visitors have caused a shrinkage in the number of foreign patient visits industrywide. For the first half of 2020, total revenue from listed healthcare service companies dropped by about 12% y-o-y. For those firms targeting healthcare tourism patients, revenue dipped by 15%-30% compared with the same period of the previous year.

BCH has also been moderately affected by the COVID-19 crisis, thanks to its large base of Thai patients. Normally, around 90% of BCH's total revenue is derived from Thai patients, both in the cash segment and under the SC scheme, while the remainder is from foreign patients. The COVID-19 crisis and subsequent national lockdown caused BCH's foreign patient volume to

drop in the second quarter of 2020, but this was partly offset by longer average hospital stays among the remaining foreign patients. The volume of Thai patients, particularly the numbers of inpatients, also declined during the height of the pandemic as a result of COVID-19 fears and the curfew.

BCH has attempted to generate more income from outpatient by offering COVID-19 infection tests, while cooperating with alternative state quarantine (ASQ) hotels, together with setting up alternative hospital quarantine (AHQ) facilities. BCH has also introduced several promotional campaigns and collaborated with insurance companies to draw new local patients. These efforts have helped soften the impact of the decline in foreign patients and created some growth. For the first half of 2020, BCH's patient revenue in the cash segment grew by around 1%, while revenues from patients under the SC scheme was relatively flat from the same period of the previous year. Despite the drop in foreign patient visits, revenues at WMC grew by 11% y-o-y for the first half of 2020, while KH-RAM's patient revenues rose by 21% y-o-y. In addition, BCH opened the 90-bed Kasemrad International Hospital Aranyaprathet (KIH-Aranyaprathet) in Sa Kaeo province, in May 2020. This new hospital has helped enlarge BCH's patient base and creates additional sources of income. As a result, BCH's total patient revenue in the first half of 2020 proved quite resilient amid the COVID-19 pandemic at THB4.26 billion, up 1.1% from THB4.22 billion in the same period of the previous year.

After the relaxation of several restrictive measures, there have been signs of a recovery in local patient numbers although operations are not yet fully back to normal. In the second half of 2020, the number of SC-insured patient visits is expected to increase, particularly among those who need complex healthcare treatment. In addition, the Social Security Office (SSO) launched an influenza vaccination program in the last quarter of 2020, offering free of charge for registered persons aged 50 years and over. Our base-case forecast assumes BCH will sustain its revenue level in 2020. We project revenues will increase at a rate of 5%-10% per annum during 2021-2023. The growth will be driven by the larger customer base due to the expansion of BCH's hospital network, increasing number of SC insured persons, and through the introduction of more complex healthcare services.

Strong and resilient profitability

BCH reported earnings before interest, taxes, depreciation, and amortization (EBITDA) of about THB2.4 billion in 2019, up by 6% from THB2.2 billion in 2018. BCH's EBITDA margin has been in the 25%-28% range over the last five years. BCH's strong profit margin is supported by its cost efficiency, higher revenue, and larger contribution from its cash patient segment. The EBITDA in the first half of 2020 rose to around THB1.19 billion, up from THB1.07 billion in the same period of the previous year. The EBITDA margin rose to 27.7%, as a result of cost-control initiatives and efforts to revamp internal processes to improve efficiency.

Going forward, we expect BCH's profitability to remain resilient amid concerns over a lengthy pandemic. We forecast BCH's EBITDA margin to hold at about 26%-27% during the next three years, reflecting improving operating revenue with a larger patient base and the company's cost-control efforts, but weighed down by the operating costs and expenses of new hospital projects. In addition, we expect the profitability of the newly added hospitals to gradually improve over the medium term.

Intense competition and exposure to regulatory risk

We expect the prospects of the healthcare industry in Thailand to remain sound over the medium term as the country's population ages and worldwide health-conscious trend. However, competition in the industry, from both domestic and international players, is stiff. We expect domestic market competition to intensify with more new entrants to the private healthcare market, particularly in the premium segment, over the next three years. New entrants include a rising number of government-run healthcare centers, such as special clinics at government hospitals, and new private hospitals. We have also seen many real estate companies and hotels adapting their business models to include healthcare services. The intensifying competition will likely lead to increasing movements of physicians and nurses among hospitals, and price competition in the market over the medium term.

Private hospitals participating in the SC scheme will face the regulatory risks that come with the public healthcare system, such as changes in reimbursement rates and conditions for the provision of services, expansion of coverage for certain diseases, procedural treatment, and the fiscal status of the government. Revenue per insured person increases as the SSO usually adjusts the revenue per capita every two years. Recently, the SSO increased revenue per insured person, both in basic revenue and high-cost care per capita, effective since 1 January 2020. The increase in high-cost care per capita will help the SSO prepare for its internal budget set-ups, in order to ensure sufficient budget to pay hospitals providing services to complex-care inpatients in the last quarter of the year.

Debt to rise in the coming years

In our base-case forecast, we project BCH's leverage to increase over the next three years in line with its plans to expand its hospital network in 2020-2021 and for maintenance of its existing facilities, as well as to purchase land for parking lots.

BCH's total debt is forecast to stay around THB7 billion during 2020-2023. We estimate its capital expenditure at about THB6.2 billion in aggregate for the period 2020-2023. The investment budget includes THB2.6 billion for new hospital projects and maintenance capital expenditure of THB0.3-THB1 billion per year. Two new hospital projects in the pipeline are the 115-bed Kasemrad Hospital in Prachinburi province, and the 110-bed Kasemrad International Hospital Vientiane in the Lao People's Democratic Republic (Lao PDR).

With the projected growth in cash flows, we expect BCH to partly finance its capital expenditure from its operating cash flows. We project BCH's net debt to EBITDA ratio will stay at 2.3-2.6 times during the next three years, while the ratio of funds from operations (FFO) to total debt is forecast to be 30%-35%. Under our projections, BCH's debt to capitalization ratio should remain in the 45%-50% range. The EBITDA interest coverage ratio should stay in the range of 11-13 times during the same period.

Adequate liquidity

We assess BCH's liquidity to be adequate for the next 12-24 months. At the end of June 2020, BCH's sources of funds comprised cash and cash equivalents of about THB800 million. FFO is forecast at around THB1.9-THB2 billion for the next 12 months. Funds will be used for scheduled debt repayments and planned capital expenditures. BCH's planned capital expenditures are projected to total THB2.6 billion in 2020 and THB0.3-THB1 billion per annum during 2021-2023. About THB1.5 billion in short-term loans and THB1.8 billion in long-term debt and debentures will come due in 2021, while about THB2.5 billion in long-term debt and debentures will come due in 2022.

The company has to keep its liabilities to equity ratio below 2 times in order to comply with the financial ratio covenant on its bonds and bank loans. At the end of June 2020, the ratio was 1.2 times. Based on BCH's sound financial profile, we believe that the company should have no problems complying with the financial covenant.

BASE-CASE ASSUMPTIONS

- Revenues should stay flat in 2020, then rise by 5%-10% per annum during 2021-2023.
- EBITDA margin is forecast to stay at about 26%-27% per annum during 2020-2023.
- Total capital spending of about THB6.2 billion in aggregate during 2020-2023.

RATING OUTLOOK

The "positive" outlook reflects our expectation that BCH's operating performance will continue to improve, generating a sizable revenue and maintaining a sound financial status with adequate liquidity.

RATING SENSITIVITIES

BCH's ratings could be upgraded, should the company enlarge its revenue base, reaching around THB10-THB11 billion per annum, while delivering strong financial performance. On the contrary, the rating outlook could be revised back to "stable" if the financial performance turns out to be weaker than expected.

COMPANY OVERVIEW

BCH was established in 1993 and listed on the Stock Exchange of Thailand (SET) in 2004. As of August 2020, BCH's major shareholder was the Harnphanich family, holding approximately 50% of the outstanding shares. BCH owns and operates 13 hospitals and one polyclinic. BCH has four major hospital brands: WMC, Kasemrad International Hospital (KIH), Kasemrad Hospital (KH), and Karunvej Hospital (KV). Each brand targets a different patient segment. For example, WMC aims to service high-income self-pay and international patients, KIH provides service to upper middle-income self-pay patients, KH targets middle-income self-pay patients and SC patients, and KV focuses on patients enrolled in the SC scheme.

The revenue contributions of the self-pay and SC groups in the first six months of 2020 constituted approximately 65% and 35% of total revenue, respectively. Revenues from the outpatient department (OPD) contributed about 55% of patient revenue in the cash segment; the remainder came from inpatients.

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Services

Services	2017		2018		2019		Jan-Jun 2020	
	Mil. THB	%						
Cash segment	4,476	62	5,155	64	5,791	65	2,716	64
Social security coverage	2,717	37	2,919	36	3,089	35	1,545	36
Universal coverage	62	1	0	0	0	0	0	0
Total	7,255	100	8,073	100	8,880	100	4,261	100

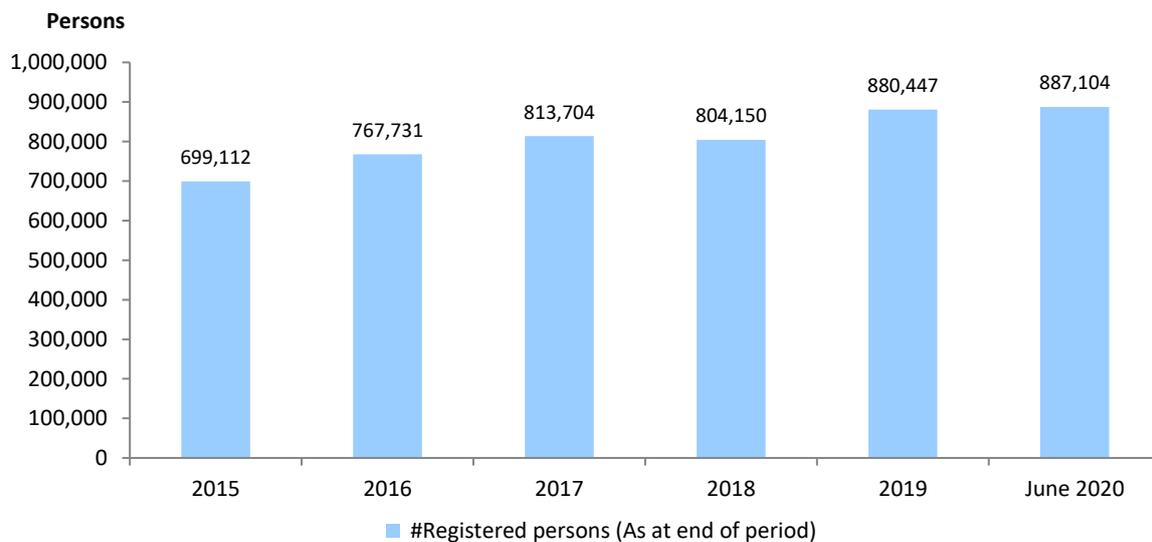
Source: BCH

Chart 1: Revenue by Patient Types (%)



Source: BCH

Chart 2: BCH Patients Enrolled in SC Scheme



Source: BCH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	4,298	8,992	8,177	7,353	6,598
Earnings before interest and taxes (EBIT)	823	1,724	1,670	1,535	1,312
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,200	2,407	2,264	2,084	1,837
Funds from operations (FFO)	998	1,982	1,842	1,668	1,458
Adjusted interest expense	64	140	137	146	171
Capital expenditures	1,836	1,750	1,259	1,120	734
Total assets	15,869	14,116	12,627	12,674	10,569
Adjusted debt	6,421	4,828	4,197	4,056	3,632
Adjusted equity	7,175	6,978	6,398	5,912	5,337
Adjusted Ratios					
EBITDA margin (%)	27.92	26.77	27.69	28.34	27.84
Pretax return on permanent capital (%)	13.56 **	14.38	14.55	14.45	13.62
EBITDA interest coverage (times)	18.76	17.24	16.54	14.30	10.75
Debt to EBITDA (times)	2.55 **	2.01	1.85	1.95	1.98
FFO to debt (%)	32.49 **	41.04	43.90	41.11	40.14
Debt to capitalization (%)	47.22	40.89	39.61	40.69	40.49

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Bangkok Chain Hospital PLC (BCH)

Company Rating:	A-
Issue Ratings:	
BCH211A: THB1,500 million senior unsecured debentures due within 2021	A-
BCH22DA: THB1,000 million senior unsecured debentures due within 2022	A-
BCH226A: THB1,200 million senior unsecured debentures due within 2022	A-
Rating Outlook:	Positive

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