BUMRUNGRAD HOSPITAL PLC

No. 120/2017 27 September 2017

Company Rating: A+

Issue Rating:
Senior unsecured A+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
23/09/15	A+	Stable
21/10/11	A	Stable

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Rating Rationale

TRIS Rating affirms the company rating and the ratings of senior unsecured debentures of Bumrungrad Hospital PLC (BH) at “A+”. The ratings reflect BH’s leading position in Thailand’s private healthcare market, its strong market position in the medical tourist segment, and strong financial position. However, these strengths are partially offset by intense competition in the local and international healthcare markets, the risk from single premise limitation, and the current worldwide economic slowdown, which may reduce the number of foreign patients.

BH operates a hospital in Bangkok under the name “Bumrungrad International Hospital”. The company is a leading private healthcare provider in Thailand and the Asia region, with service capacities of 6,260 outpatients per day and 676 registered inpatient beds (including Ulaanbaatar Songdo Hospital in Mongolia). The company focuses mainly on tertiary care treatment. Foreign patients account for more than 50% of the total numbers of patient visits annually. About 70% of total revenue is from self-pay patients.

BH’s strong business profile reflects its solid brand equity with more than three decades of respectable clinical outcomes. BH mostly targets premium local and foreign patients and competes through differentiation based on services offered and service quality. The company has a very strong revenue generating capacity per patient, a key factor in attracting and retaining talented medical staff and specialists.

Revenue contribution from foreign patients comprised around 60%-65% of BH’s total revenue. The relatively high contribution from foreign patients helps enhance BH’s revenue base and profitability since foreign patients usually have longer length of stay and higher revenue intensity. In addition, the diverse nationalities of its patients help reduce its reliance on domestic demand for healthcare services.

During the last three years, patients from countries in the Middle East accounted for 21%-24% of BH’s total revenue. A drop in oil prices and a rise in competition from clinics in the United Arab Emirates (UAE), where the government of UAE is encouraging its citizens to stay home for medical care, curbed the number of patients from the Middle East countries traveling to Thailand.

For 2016 operations, revenue from patients from Middle East countries declined by 6% year-on-year (y-o-y) while revenue from Thai patients grew by 5% y-o-y and patients from Cambodia, Laos, Myanmar, and Vietnam (CLMV countries) increased by 8% y-o-y in 2016. As a result, BH’s total revenue was Bt17,915 million in 2016, growing by 1% y-o-y. A continued focus on revenue intensity and efficient cost control have resulted in a better profitability. BH’s operating income before depreciation and amortization as a percentage of revenue, improved to 32% in 2016 from 30.6% in 2015. Earnings before interest, tax, depreciation, and amortization (EBITDA) increased to Bt5,709 million in 2016, up from Bt5,436 million in 2015. During the first seven months of 2017, revenue from Thai patients grew by 2% over the same period of 2016 while revenue from Middle East patients continued to decline, sliding by 7% y-o-y. However, EBITDA increased by 5.9% y-o-y to Bt3,071 million. BH’s operating income before depreciation and amortization continued to improve, climbing to 35% during the first half of 2017, from 32.4% over the same period of 2016.

Going forward, in TRIS Rating's base case forecast, BH's revenue will remain flat in 2017, and gradually grows by around 5% per annum during 2018-2020. The operating margin is expected to remain healthy, averaging 30% annually over the same period.

BH decides to postpone its future expansion into 2019. A decline in the number of patients, plus the additional capacities in its existing buildings, have delayed the company's two expansion projects, the Petchburi Road site and the Sukhumvit Soi 1 site to 2019. Based on BH's service capacity at the main campus, the utilization rate for outpatients and inpatients in 2016 was 54% and 70% respectively. The remaining capacity at the main campus is expected to accommodate increasing numbers of patient for the next three to five years.

BH's total capital expenditures will total Bt18,000 million during 2017-2020. The budget includes Bt8,200 million to add new capacity of 200-beds and maintenance capital expenditures of Bt600 million per annum.

At the end of June 2017, the debt to capitalization ratio remained healthy at 20.94%. Given the planned investments, BH's total debt to capitalization ratio is projected at 22%-25% during 2017-2018, and will rise to 37% during the development periods of the new campus during 2019-2020.

BH's liquidity is relatively strong. At the end of June 2017, cash on hand and marketable securities stood at Bt7,816 million. EBITDA is forecast at Bt5,500-Bt6,000 million per year during 2017-2020. Dividend payments are forecast at Bt1,600-Bt1,800 million per annum.

Rating Outlook

The "stable" outlook is based on the expectation that BH will maintain its leading position in the premium healthcare segment and continue delivering strong financial results. High cash balances and stable cash flows will provide financial flexibility while the company is investing and expanding.

BH's credit ratings could be upgraded should the company successfully diversify its portfolio of businesses while maintaining a strong financial profile. In contrast, the rating downside may occur if BH's operating performance drops significantly from the current level, leading to noticeably weaker profitability and financial position for the extended periods.

Bumrungrad Hospital PLC (BH)

Company Rating:	A+
Issue Ratings:	
BH18DA: Bt1,000 million senior unsecured debentures due 2018	A+
BH21DA: Bt2,500 million senior unsecured debentures due 2021	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Jun 2017	---------- Year Ended 31 December ---------- 2016	2015	2014	2013	2012
Sales and service revenues	8,884	17,915	17,660	15,630	14,346	12,983
Gross interest expense	78	215	187	186	148	241
Net income from operations	1,963	3,604	3,382	2,689	2,466	1,698
Funds from operations (FFO)	2,602	4,717	4,410	3,743	3,197	2,700
Capital expenditures	494	2,453	1,541	1,312	2,232	1,020
Total assets	22,160	21,330	21,298	19,145	17,252	15,985
Total debts	3,692	3,689	5,161	5,152	5,142	4,960
Total liabilities	6,559	6,542	8,197	7,885	7,655	7,474
Shareholders' equities	15,601	14,788	13,100	11,260	9,597	8,510
Depreciation & amortization	592	1,139	1,045	1,045	882	709
Dividends	1,129	1,750	1,568	1,385	1,386	912
Operating income before depreciation and amortization as % of sales	34.96	32.01	30.64	27.98	26.94	24.30
Pretax return on permanent capital (%)	24.78 **	24.33	24.79	22.08	22.97	21.77
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	26.72	22.45	24.50	24.75	27.87	14.32
FFO/total debt (%)	122.87 **	112.37	80.87	65.74	62.72	54.43
Total debt/capitalization (%)	20.94	22.74	30.20	33.59	34.89	36.82

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
Note: *All are operating leased adjusted ratios*

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