

BUMRUNGRAD HOSPITAL PLC

No. 152/2020
30 September 2020

CORPORATES

Company Rating:	A+
Issue Rating:	
Senior unsecured	A+
Outlook:	Stable

Last Review Date: 30/09/19

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Bumrungrad Hospital PLC (BH) and the rating on BH's senior unsecured debentures at "A+", with a "stable" outlook. The ratings reflect BH's leading position in the premium private healthcare service market in Thailand and its well-recognized brand among local and international patients. The ratings also take into consideration its strong balance sheet with minimal financial leverage and ample liquidity position. However, these strengths are partially offset by intense competition in the healthcare service industry, its single-location risk, and the negative effect of the Coronavirus Disease 2019 (COVID-19) pandemic.

KEY RATING CONSIDERATIONS

Leading private hospital in the premium segment

BH is a leading private hospital in the premium segment of Thailand's healthcare service industry. In 2019, BH's revenue from healthcare services totaled THB18.4 billion, ranking it the second-largest hospital among the private hospital service providers listed on the Stock Exchange of Thailand (SET).

BH's revenue growth in 2019 was driven by increased foreign patient volume with high revenue intensity. Its competitive edge in the medical tourist segment is largely built upon its well-recognized brand, its respectable clinical track record, and established overseas network. Patients from the Middle East account for the largest portion of BH's total foreign patients. Despite the slowdown of the global economy, revenue derived from Middle East patients in 2019 rose by 6% from the 2018 level. Revenue from Indo-Chinese patients rose by 3%. In the long term, we expect revenue intensity together with new advanced services and innovative health technology will play a major role in driving BH's revenue streams.

Healthcare sector negatively affected by COVID-19

Thailand's private hospital industry has been affected by the COVID-19 pandemic. Travel restrictions and national lockdown measures have caused a decline in the number of foreign patient visits. For the first half of 2020, total revenue from SET-listed healthcare service firms dropped by about 12% year-on-year (y-o-y). For those firms targeting healthcare tourism patients, revenue dipped by 15%-30% y-o-y in the same period.

Normally, about 65% of BH's total revenue is derived from foreign patients, with the remainder 35% from Thai patients. The COVID-19 crisis and subsequent national lockdown caused BH's foreign patient volume to drop drastically in the second quarter of 2020. Thai patient volume also declined in April 2020 during the height of the COVID-19 fears and curfew period. As a result, revenue from Thai patients dropped by about 5% y-o-y in the first half of 2020, while revenue from international patients slipped by about 35%. BH's total patient revenue in the first half of 2020 plunged by 27% y-o-y to

THB6.5 billion.

In the second half of 2020, the Thai government has eased several measures. We expect medical tourists will probably be among the first foreigners to be allowed in when the country gradually reopens, to drive the economy. Patients from neighboring countries seeking medical treatment in Thailand have been allowed to enter the country since August 2020, under certain conditions. Recently, the government announced plans to allow foreign tourists to visit for longer stays starting from October 2020. In our view, the fundamentals of the healthcare industry remain sound, underpinned by an aging society and rising healthcare awareness worldwide. With Thailand's competitive strengths in quality healthcare services, location, and lower prices compared with other countries, a large number of foreigners are still keen to come to Thailand for their medical treatment.

After the relaxation of several measures, there have been signs of a recovery in local patient numbers. BH has put more efforts on expanding its local patient base, by introducing numerous promotional campaigns and granting discounts on room charges and medicines, to draw new Thai and expatriate customers. With the lower prices, BH's high quality of service and reliable medical track records, we expect local patient volume to gradually increase. BH's telemedicine, healthcare technology via mobile application, and collaboration with other businesses such as hotels, wellness, and insurance companies serve as another source of income to help sustain growth in the long term.

Under our base-case scenario, we project BH's operating revenue to drop significantly in 2020, and then gradually recover in 2021 but remain below the 2019 level, then resume to the level of about THB18 billion in 2022.

Narrowing profitability expected in the coming years

BH's earnings before interest, tax, depreciation, and amortization (EBITDA) was around THB5.9 billion in 2019. Its EBITDA margin was very high at about 32% in 2019, way above the average profit margin of about 20% among SET-listed peers. BH's ability to generate superior earnings is mainly attributed to its high revenue intensity from specialized healthcare treatment and superior tertiary care.

The EBITDA margin for the first half of 2020 narrowed to 24.8%, due largely to the drop in foreign patient numbers. However, the company's profit margin remained in the top-range among the SET-listed healthcare firms. In this challenging year, BH has started cutting selling expenses, unnecessary operating expenses, and postponed major capital expenditures to alleviate the impact of depressed revenue. We expect BH's EBITDA margin to come under pressure in 2020 and 2021 due to the revenue drop and major fixed operating costs such as personnel expenses. The EBITDA margin is forecast to rebound to the 28%-30% level during 2022-2023.

Single-site risk

BH's credit profile is constrained by its single-location risk. We expect the single-location risk to remain over the medium term. BH generates almost all of its revenue from a single facility in Bangkok. Based on BH's service capacity at its main campus, the bed utilization rate in 2019 was about 60%. The remaining capacity at the main campus is expected to accommodate increasing numbers of patients over the medium term.

BH plans to renovate some floors of the main campus building for clinical use and expand the main hospital to Sukhumvit Soi 1. The Sukhumvit Soi 1 project will comprise three buildings, one of which will house a parking lot, the second an office, and the third an outpatient clinic. The investment for the Sukhumvit Soi 1 project kicked off in the second quarter of 2020, after being postponed from the final quarter of 2019. For its "Vitalife" services project (integrated preventative and wellness sanctuary services) at Bangkrajao, Samutprakarn province, the company plans a soft opening in December 2020.

BH's total capital expenditure during 2020-2023 will be around THB9.2 billion. The budget includes THB2.3 billion for the investment on Sukhumvit Soi 1 and THB2.2 billion for expansion in other buildings at the main campus during 2020-2023. BH's planned maintenance capital expenditure, including information technology-related maintenance and others, is estimated at about THB1.1-THB1.4 billion per annum. A new project on Bangkok's Phetchburi road is expected to be postponed until additional capacity is needed.

Minimal leverage and sound liquidity profile

BH's outstanding interest-bearing debt at the end of June 2020 was THB2.82 billion, down from THB3.05 billion at the end of 2019. The conversion of BH's convertible bonds of THB230 million helped bolster the equity base and reduce the

company's debt burden. Going forward, we expect BH's financial leverage to decline, following repayment of maturing debentures amounting to THB2.5 billion in 2021.

BH's strong cash generation capabilities, with no sizable capital expenditures or investments for a considerable period, have kept the company in a net cash position for years. We expect BH's liquidity to remain ample during the next 12-24 months. As of June 2020, cash on hand and cash equivalents amounted to around THB8 billion. We project funds from operations (FFO) of around THB2.3-THB2.5 billion during the next 12 months. BH plans capital spending of about THB2-THB3.6 billion per annum during the next three years, while THB2.5 billion of debentures will come due in 2021. The sources of funds should be sufficient to cover its planned capital expenditures, debt repayment, and dividend payout. We expect the company to continue to preserve cash and maintain a sound liquidity profile during the next three years.

BASE-CASE ASSUMPTIONS

- Revenue to come under pressure in 2020 and 2021, and rebounding to the level of about THB18 billion per annum during 2022-2023.
- EBITDA margin to decline in 2020-2021, and to improve to the 28%-30% per annum range during 2022-2023.
- Total capital spending of around THB9.2 billion during 2020-2023.

RATING OUTLOOK

The "stable" outlook is based on our expectation that BH will maintain its leading position in the premium healthcare segment and maintain a strong balance sheet with ample liquidity profile. Stable cash flows will provide financial flexibility while the company is investing and/or expanding.

RATING SENSITIVITIES

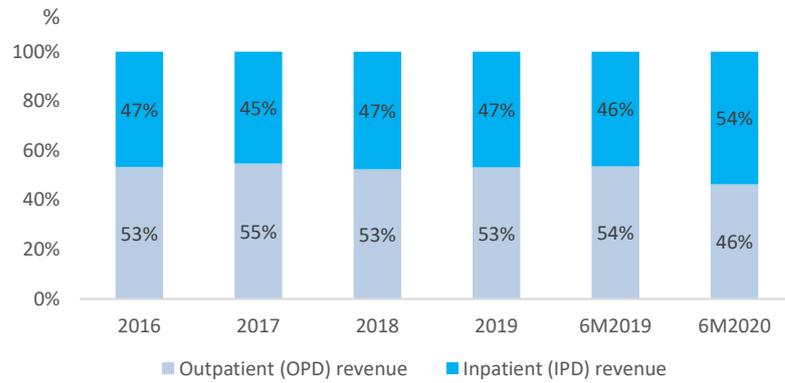
BH's ratings could be revised downward if its financial status and liquidity profile deteriorate materially on a sustained basis and/or its leverage significantly increases, as a result of an aggressive debt utilization. On the other hand, BH's ratings could be upgraded should the company successfully diversify its portfolio of businesses and locations, while maintaining ample liquidity.

COMPANY OVERVIEW

BH operates a hospital in Bangkok under the name "Bumrungrad International Hospital". The company is a leading private healthcare provider in Thailand and the Asian region, with a service capacity of 6,440 outpatients per day and 668 registered inpatient beds (including Ulaanbaatar Songdo Hospital in Mongolia). The company focuses mainly on tertiary care treatment. Foreign patients accounted for around 55% of the company's total number of patient visits and about 66% of its total revenues in 2019. Self-pay patients made up 69% of patient revenue, followed by patients covered by health insurance (16%) and government and corporate-contracted patients (15%).

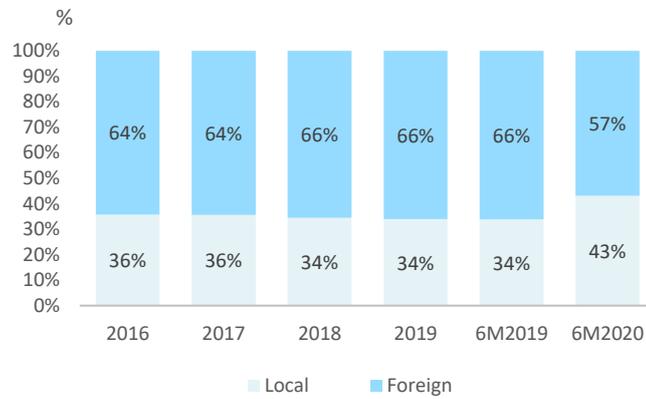
KEY OPERATING PERFORMANCE

Chart 1: BH's Revenue Contribution by Service Type



Source: BH

Chart 2: BH's Revenue Contribution by Nationality



Source: BH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	6,580	18,559	18,416	18,168	17,990
Earnings before interest and taxes (EBIT)	1,013	4,688	5,218	4,950	4,610
Earnings before interest, tax, depreciation, and amortization (EBITDA)	1,632	5,932	6,417	6,186	5,786
Funds from operations (FFO)	1,433	5,010	5,346	5,151	4,756
Adjusted interest expense	66	149	191	194	257
Capital expenditures	467	1,885	893	1,667	2,453
Total assets	24,902	26,181	24,749	23,484	21,333
Adjusted debt	0	0	0	0	0
Adjusted equity	19,101	19,715	18,194	16,155	14,238
Adjusted Ratios					
EBITDA margin (%)	24.80	31.96	34.84	34.05	32.16
Pretax return on permanent capital (%)	15.15 **	20.54	24.24	24.71	24.36
EBITDA interest coverage (times)	24.91	39.86	33.62	31.90	22.54
Debt to EBITDA (times)	0.00 **	0.00	0.00	0.00	0.00
FFO to debt (%)	n.m. **	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	0.00	0.00	0.00	0.00	0.00

* Consolidated financial statements

** Annualized with trailing 12 months

n.m. Not meaningful

RELATED CRITERIA

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

Bumrungrad Hospital PLC (BH)

Company Rating:	A+
Issue Rating:	
BH21DA: THB2,500 million senior unsecured debentures due 2021	A+
Rating Outlook:	Stable

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