

BUMRUNGRAD HOSPITAL PLC

No. 159/2021

29 September 2021

CORPORATES

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

Last Review Date: 30/09/20

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 in Thailand and its well-recognized brand among local and international patients. The ratings also take into consideration its strong balance sheet with low debt burden and ample liquidity. However, these strengths are partially offset by its heavy reliance on international patients which has been the key factor for its softened operating performance during the Coronavirus Disease 2019 (COVID-19) pandemic, and its single-location risk.

KEY RATING CONSIDERATIONS

Operating performance affected by massive drop of international patients

The tight control on entries into the country and quarantine requirements for foreign visitors have caused a contraction in the number of foreign patient visits in Thailand. In 2020, total revenue from listed healthcare service companies dropped by about 12% from 2019. However, for those targeting foreign patients, the magnitude of revenue drop was significantly higher in the range of 15%-35% from the previous year.

Normally, about 65% of BH's total revenue is derived from foreign patients. The COVID-19 pandemic and subsequent restrictions on travel and medical tourism caused BH's international outpatient visits in 2020 to plummet by 45% from 2019, and total revenue declined by about 33%.

BH has attempted to boost revenue from local and expatriate patients. International patients and travelers that used BH's alternative hospital quarantine (AHQ) and alternative state quarantine (ASQ) services also increased significantly. For the first half of 2021, revenue from the AHQ and ASQ programs contributed about 18% of its net patient revenue, up from 5% in 2020. The rising number of local outpatient visits, together with increases in inpatients under the AHQ and ASQ programs, partly compensated the massive drop of fly-in international patients.

We expect the path to recovery for tourism-related businesses to be protracted and is likely to take longer time than our previous expectation. We expect a significant resumption in foreign tourist arrivals in the second half of 2022 after many countries achieve their population vaccination targets. With Thailand's competitive strengths in quality healthcare services, convenient location, and lower prices compared with most other countries, we believe foreign patients remain keen to come to Thailand for their medical treatments. We expect the recovery of foreign patient visits to come close to pre-pandemic levels in 2023.

Our base-case projection forecasts BH's total operating revenue to stay at around THB11 billion in 2021, and then gradually improve in 2022. We project BH's operating revenue to grow 15%-20% per annum during the next several years.

Rising revenue from local patients alleviates impacts of COVID-19

Despite the surge in COVID-19 cases in Thailand, BH's revenue from local patients continued to grow in 2020 through the first six months of 2021. Before COVID-19, about 35% of BH's total revenue was derived from local

patients. During the successive COVID-19 outbreaks, the company's revenue proportion from local patients increased to 51% of total patient revenue in 2020, and about 56% for the first six months of 2021.

BH has focused on attracting new local patients, both Thai and expatriate customers, through marketing activities and promotional campaigns, discounts on room charges, as well as an omni-channel approach to reach target customers. BH has also adopted a loyalty program to help retain existing customers. As a result, revenue from Thai and expatriate patients rose by about 6% in 2020 and jumped by around 20% year-on-year (y-o-y) in the first half of 2021.

We expect the number of Thai and expatriate outpatient visits to continue to grow in the next few years, backed by BH's reliable medical track record, high quality of service, and competitive fees. Growth will likely also come from new medical services offered and more comprehensive healthcare treatment and preventive care.

Strong market position in premium segment

BH has a strong market position as a leading private hospital in the premium segment of Thailand's healthcare service industry. BH targets mostly premium local and foreign patients and competes by differentiating itself for complex medical care. BH is the second-largest hospital network in Thailand in terms of capability to service international patients in the global medical tourism market. Annually, BH provides tertiary care and specialized treatment to more than 600,000 international patients from multiple countries worldwide, making up about 65% of its total patient revenue. BH's competitive edge in the medical tourist segment reflects its expertise and reputation in the healthcare service industry and strong overseas networks. In terms of revenue, BH's revenue from healthcare services in 2020 totaled THB12.3 billion, ranking it the second-largest hospital among the private hospital service providers listed on the Stock Exchange of Thailand (SET).

Looking ahead, we hold the view that BH should be able to maintain its market position and competitive edge in the premium private hospital market, underpinned by its strong brand and proven track record. BH has been providing healthcare services for four decades and is well-recognized for its superior tertiary healthcare services and specialized healthcare treatments. BH has made on-going investments in advanced technology medical equipment while maintaining high-quality services and skilled medical staff, enabling it to undertake more complex cases. We expect BH will be able to expand its revenue base and increase profitability in the medium term when international travel resumes and quarantine requirements are relaxed.

Single-site risk

BH's credit profile is constrained by its single location risk. BH generates almost all of its revenue from a single facility located on Sukhumvit Soi 3 in Bangkok. Based on BH's service capacity at its main campus, the bed utilization rate in 2020 was about 50%. The remaining capacity at the main campus is expected to accommodate increasing numbers of patients over the medium term.

At the main campus, BH plans to renovate the floors of some buildings for clinical use and add new specialized clinics, while continuing to upgrade its service and equipment. This ongoing operation will enable it to accommodate more outpatient visits at the main campus. BH will also add a new 12-bed intensive care unit (ICU) ward and renovate inpatient wards for more critical care admissions.

The company plans to expand capacity to an area located on Sukhumvit Soi 1, to alleviate the concentration on its main campus. 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 Sukhumvit Soi 1 project kicked off in the second quarter of 2020 and is expected to be completed within 2023.

BH provides integrative preventative and wellness sanctuary services under the name "VitalLife Center" at its main campus. BH has worked with its business partners to expand the "VitalLife" services, at Bangkrajao, Samutprakarn province. In terms of equipment, BH has invested of around THB300 million for this project. The project held its soft launching in November 2020, providing integrated healthcare, personalized wellness programs, and promoting disease prevention and lifestyle improvement.

BH's total capital expenditure during 2021-2024 will be nearly THB9 billion. The budget includes THB1.9 billion for the investment on Sukhumvit Soi 1 and THB2.2 billion for expansion of buildings at the main campus during 2021-2024. BH's planned maintenance capital expenditure, including information technology-related maintenance and others, is estimated to be THB1-THB1.4 billion per annum.

Profit margin to improve in the coming years

BH's profitability has been pressured by the drop in the number of foreign patients during 2020-2021. Usually, overseas patients come to BH to receive healthcare services involving more complex and high-acuity treatments. The revenue

intensity (income from high intensity of care) of specialized treatments for international patients is higher than that for local patients.

BH reported earnings before interest, taxes, depreciation, and amortization (EBITDA) at about THB2.7 billion in 2020, falling by half from 2019. BH's EBITDA for the first six months of 2021 was about THB1 billion. Its EBITDA margin stood at 22% in 2020 and 18% in the first half of 2021, down from the 30% level in the past, due to a decline in international patient revenues.

BH has implemented expense controls, reduction of selling expenses, payroll management, and postponement of major capital expenditures to alleviate the impact of depressed revenue. We project the EBITDA margin to stay at about 18% in 2021, then improve to the 22%-31% range during 2022-2024. The profitability improvement will be driven by a gradual recovery of foreign patient visits, increase in revenue from local patients, as well as its high revenue intensity from specialized healthcare treatments and superior tertiary care.

Low-leveraged balance sheet with strong liquidity profile

BH's interest-bearing debt at the end of June 2021 was THB2.8 billion, comprising debentures of THB2.5 billion and THB0.3 billion of convertible bonds. BH's debt will decline considerably this year, following repayment of maturing debentures in December 2021. BH's capital structure remains strong, with its equity base as of June 2021 amounting to THB17 billion.

BH has a strong liquidity profile. As of June 2021, cash on hand and cash equivalents totaled around THB8 billion, with an undrawn bank facility of THB3.3 billion. We expect funds from operations (FFO) to be in the range of THB1.8-THB2.4 billion during the next 12-18 months. The primary use of funds will be capital expenditures and debt repayment. BH plans capital expenditures of nearly THB2 billion in 2021, while THB2.5 billion in debentures will come due in the same period. TRIS Rating's baseline scenario expects BH to have a comfortable level of funds to meet its cash outlays for the capital expenditures, debt repayment, and dividend payout over the next 12-18 months. During the next three years, we expect BH's capital structure to remain healthy, with ample liquidity and little need to borrow.

BASE-CASE ASSUMPTIONS

- Revenue to decline to THB11 billion in 2021, then increase to THB12-TH17 billion per annum during 2022-2024.
- EBITDA margin at about 18% in 2021, improving to the 22%-31% range during 2022-2024.
- Total capital spending of around THB9 billion during 2021-2024.

RATING OUTLOOK

The "stable" outlook is based on our expectation that BH will retain its leading position in the premium healthcare segment and maintain a strong balance sheet with ample liquidity. We expect BH's operating performance to gradually rebound during 2022-2023.

RATING SENSITIVITIES

The ratings could be revised downward if BH's business profile deteriorates significantly, possibly due to a notable loss of market share or material delays of recovery in the number of international patients. On the other hand, BH's ratings could be upgraded should the company successfully diversify its business model to be less reliant on international patients and less concentrated on its single site facilities, while maintaining its strong financial position.

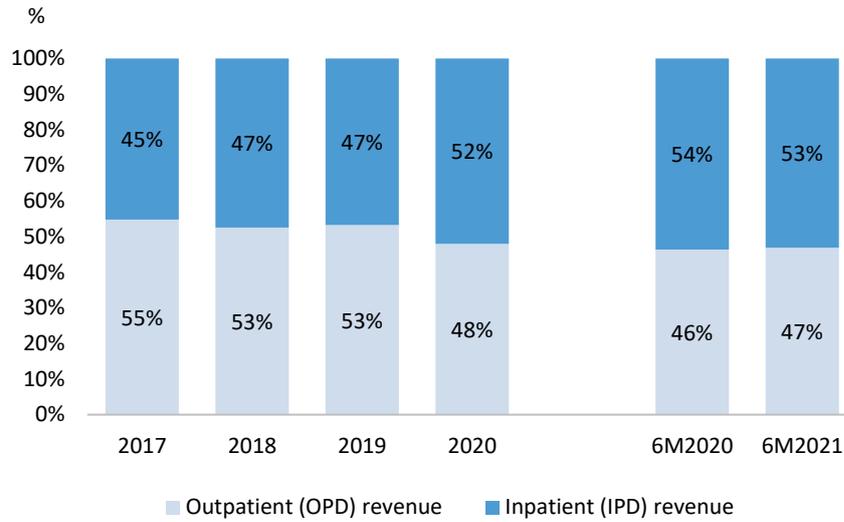
COMPANY OVERVIEW

BH was established in 1980 and listed on the SET in 1989. BH operates a hospital in Bangkok under the name "Bumrungrad International Hospital". The company is a leading private healthcare provider in Thailand and in 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 delivers a comprehensive array of healthcare services spanning tertiary and super-tertiary care levels, as well as preventive healthcare. BH's VitalLife Center provides integrative preventative and wellness sanctuary services.

The company's total patient revenue was THB12.3 billion in 2020 and about THB5.6 billion for the first half of 2021. In 2020, revenues from the inpatient department (IPD) contributed 52%; the remainder came from outpatients. Normally, 65% of total healthcare service revenue is from international patients. In 2020, foreign patients accounted for around 49% of its total revenues. Self-pay patients made up 61% of patient revenue, followed by patients covered by health insurance (21%), and government-contracted patients and others (18%).

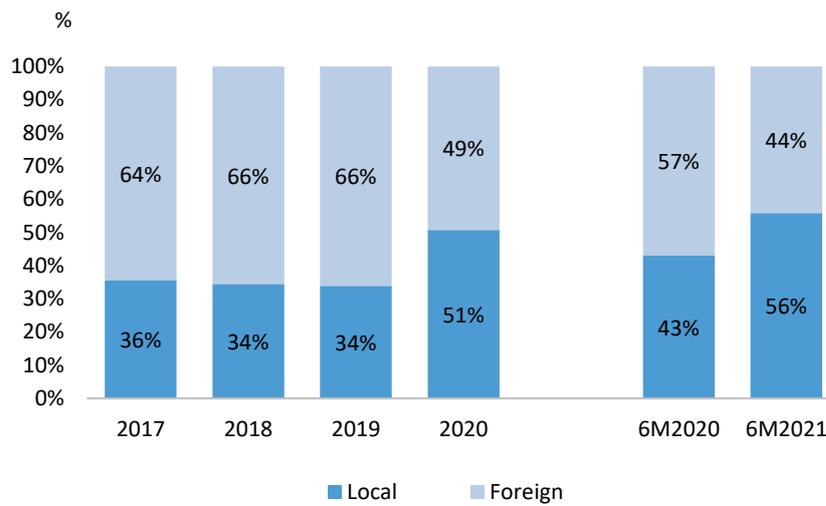
KEY OPERATING PERFORMANCE

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 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	5,694	12,440	18,559	18,416	18,168
Earnings before interest and taxes (EBIT)	420	1,511	4,689	5,218	4,950
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,025	2,733	5,933	6,417	6,186
Funds from operations (FFO)	909	2,440	5,010	5,346	5,151
Adjusted interest expense	65	144	150	191	194
Capital expenditures	420	993	1,885	893	1,667
Total assets	23,121	24,222	26,181	24,749	23,484
Adjusted debt	0	0	0	0	0
Adjusted equity	17,206	18,517	19,715	18,194	16,155
Adjusted Ratios					
EBITDA margin (%)	17.99	21.97	31.97	34.84	34.05
Pretax return on permanent capital (%)	4.18 **	6.57	20.54	24.24	24.71
EBITDA interest coverage (times)	15.67	19.04	39.60	33.62	31.90
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

- Issue Rating Criteria, 15 June 2021
- 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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