

Press Release

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TRIS Rating Assigns "AA-/Stable" Rating to Senior Unsecured Debt Worth Up to Bt4,000 Million of "BDMS"

TRIS Rating has assigned the rating of "AA-" to the proposed issue of up to Bt4,000 million in senior unsecured debentures of Bangkok Dusit Medical Services PLC (BDMS). At the same time, TRIS Rating has affirmed the company and outstanding senior unsecured debenture ratings of BDMS at "AA-". The outlook remains "stable". The proceeds from the new debentures will be used for investment and working capital. The ratings reflect BDMS's leading market position as the largest private hospital operator in Thailand, its extensive hospital network and solid reputations of its hospital brands, as well as its experienced management team and capable physicians. The ratings also take into consideration its sound operating performance and a moderate financial risk profile. These strengths are partially offset by the competition from both local and international providers of healthcare services and the large capital expenditures needed for BDMS's expansion plans.

The "stable" outlook reflects the expectation that BDMS will maintain its leading position in both domestic and regional private hospital markets and continue delivering sound financial results.

The credit ratings of BDMS could be under a downward pressure if BDMS makes any aggressive debt-funded investments so that its debt to capitalization ratio will stay higher than 45% or funds from operations (FFO) to total debt ratio will stay below 30% on a sustained period. The rating downside case would be also triggered if BDMS's profitability deteriorates for a prolonged period of time. The ratings could be revised upward should its financial profile improve significantly from the current level, leading the FFO to total debt ratio to be over 50% on a sustained period.

BDMS is the largest private hospital operator in Thailand. BDMS currently operates 44 hospitals nationwide. The company's five key hospital brands are well-known in the Asia-Pacific region: Bangkok Hospital (20 hospitals), Samitivej Hospital (5), BNH Hospital (1), Phyathai Hospital (5), and Paolo Hospital (5). Two international hospitals in Cambodia are run under the Royal International Hospital brand. The remaining six hospitals carry local brand names. Its customer base covers the middle-income to high-end segments in various locations.

BDMS's strong business profile reflects its ability to provide a wide range of services, broad customer base and the locations of its hospitals, as well as the solid reputations of its hospital brands. BDMS covers the delivery of comprehensive array of healthcare service spanning all levels and intensity of care. The company's competitive advantage stems from its extensive referral network and the largest pool of physicians and nurses in Thailand. BDMS also benefits through economies of scale by pooling lab services and the centralized purchasing of medicines and medical equipment.

Revenue from hospital operations in 2016 was Bt65,237 million, rising by 8% from the previous year. The rise was driven by an increase in patient volume together with intensity and pricing, plus wider hospital network. About 54% of the patient revenue came from inpatients; the remainder came from outpatients. In 2016, outpatient visits per day amounted to 27,102 persons, up 7% from 2015. BDMS has 5,826 available beds to accommodate inpatients. The average daily census (the average number of inpatients per day) rose by 4% from 2015 to 3,896 patients. BDMS continues to expand its hospital network. New hospitals may take time to ramp up revenue and profit. At the same time, larger base of physician and clinical staff has push expenses for doctors and clinical staff higher. However, BDMS pushed efforts to maintain the operating margin (income before depreciation and amortization as a percentage of revenue) in a range of 20%-21% during the last two years.

BDMS aims to be one of the key healthcare service providers in the Asia-Pacific region, targeting to have 50 hospitals in the next few years. The company is now building two new hospitals, Bangkok Hospital Surat and Bangkok Hospital Chiangrai, which are expected to be opened in 2017 and 2018, respectively. These two hospitals will add 230 new beds in total. The total investment is about Bt1,700 million. In addition, BDMS has land plots in Krabi province and in the Khaoyai area, ready sites for new hospitals.

BDMS is upgrading nine major hospitals in several regions of Thailand and in Cambodia to be "Centers of Excellence" (CoE). The CoE will add specialized healthcare treatments and increase level of care. BDMS also plans to expand an international hospital. The total investment for these projects over the 5-year period are around Bt7,200 million.

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In September 2016, BDMS acquired the land and buildings in the Nailert Park project at a cost of Bt10,800 million. BDMS is developing the land and buildings to be a holistic medical service center called "BDMS Wellness Clinic". The budget for renovation and other expenses are around Bt2,000 million. BDMS Wellness Clinic will capture opportunities in two areas where demand is increasing: preventive medicine, and longevity and anti-aging. This project is expected to open in the fourth quarter of 2017. Recently, BDMS acquired the entire business of Mayo Polyclinic Co., Ltd. (MYPC) via its subsidiary -- Paolo Medic Co., Ltd. (Paolo). The total investment was Bt1,390 million, funded by cash and new borrowings. MYPC operates a private hospital called Mayo Hospital which is a 162-bed secondary care hospital, targeting middle-income patients. Through its expansion efforts, the capacity is expected to be around 7,000 available beds within 2018. BDMS's extensive network will strengthen its competitive position, enlarge its customer base, and enable the company to compete more effectively in the healthcare service industry.

BDMS's financial risk is moderate, reflecting its sound operating performance, sufficient liquidity, and moderate use of debt. The FFO in 2016 were Bt12,477 million, compared with Bt12,246 million in 2015. The liquidity remains sufficient. The FFO to total debt ratio was at 39% in 2016. Total outstanding debt was Bt31,897 million as of December 2016, up from Bt29,998 million in 2015 as BDMS continues to expand its network. The debt to capitalization ratio remained below 40% during the last three years and stood at 35.4% at the end of 2016 because BDMS's large capital base and strong cash flow.

During 2017-2019, TRIS Rating forecasts BDMS's revenue to grow by 8%-10% per annum, driven by the growth in patient volume and the new hospitals added to the network. The operating margin may be pressured by the fixed operation cost, depreciation and amortization charges for new hospitals, and a ramp up of the wellness clinic. However, BDMS is expected to manage its expenditures and continue its cost saving efforts, in order to maintain its operating margin. FFO will be in a range of Bt12,000-Bt15,000 million per annum. The planned capital expenditures over the next three years will be around Bt40,000 million. The investments will be funded in part by operating cash flow. Despite the heavy investments, the debt to capitalization ratio is expected to stay below 45% during the next three years.

Bangkok Dusit Medical Services PLC (BDMS)

Company Rating:

AA-

Issue Ratings:

BDMS233A: Bt4,000 million senior unsecured debentures due 2023	AA-
BDMS256A: Bt2,000 million senior unsecured debentures due 2025	AA-
BDMS266A: Bt3,000 million senior unsecured debentures due 2026	AA-
BDMS202A: Bt3,000 million senior unsecured debentures due 2020	AA-
BDMS222A: Bt2,500 million senior unsecured debentures due 2022	AA-
BDMS242A: Bt1,500 million senior unsecured debentures due 2024	AA-
Up to Bt4,000 million in senior unsecured debentures due within 10 years	AA-
Rating Outlook:	Stable

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