

VEJTHANI PLC

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CORPORATES

Company Rating: BBB
Outlook: Stable

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RATIONALE

TRIS Rating assigns a company rating of “BBB” to Vejthani PLC (VTN), with a “stable” rating outlook. The rating reflects the company’s proven record in the private hospital industry in Thailand, its market positions in the middle- to high-income patient segments and in the medical tourism segment, as well as its satisfactory operating results. However, the rating is constrained by its single hospital facility and small revenue base, as well as the intense competition in the private healthcare industry. The rating also takes into consideration the expected rise in debt levels to support its growth plans and the execution risks inherent in its new hospital.

KEY RATING CONSIDERATIONS

Long-track record in the Thai private hospital industry

VTN owns and operates one private hospital in Bangkok namely “Vejthani Hospital”. The company has a proven record in the Thai healthcare service industry, with about three decades of respectable clinical performance.

Vejthani Hospital has brand recognition for its tertiary healthcare services and specialized medical treatments with Joint Commission International (JCI) accredited quaternary services. The company competes in the market with its reliable clinical outcomes, international-standard quality services, advanced technologies, and competitive price. VTN has adopted digital transformation and has made investments in digital logistics management and medical devices incorporating artificial intelligence, which enable the company to handle more complex cases and retain customers.

VTN targets international patients seeking medical treatment for chronic diseases and complex healthcare in the global medical tourism market. The company also has local patients in the middle- to high-income segments. During 2017-2021, international patients account for 30%-60% of its total revenues.

Competitive strengths in medical tourism segment

VTN’s competitive strengths are in the medical tourism segment, with Thailand considered one of the most popular medical hubs in the Asia-Pacific region. Normally, about 55% of VTN’s total patient revenue is derived from foreign patients.

Revenue from patients from the Middle East has usually accounted for 50%-60% of revenues from foreign patients. Patients from Kuwait, Qatar, and the United Arab Emirates (UAE) have contributed 18%-33% of its total annual revenue during the past three years. The company is well-known for its orthopedic medical treatment and surgery for the spine, joints, and bones, as well as in vitro fertilization (IVF). Recently, VTN expanded into diabetic foot and wound healthcare services and has gained recognition among Arab patients. Revenue from international patients grew at an average of 24% per annum during 2018-2019, prior to the onset of the Coronavirus Disease 2019 (COVID-19) pandemic in 2020.

Recovery of international patients since late 2021

After the easing of lockdown measures in Thailand in November 2021 and with pent-up demand for complex healthcare services in the medical tourism

segment, VTN recorded its 2021 performance with a 53% growth of international patient revenues.

Going forward, we expect the demand for medical tourism will continue to recover, gaining its momentum in the second half of 2022. Foreign patients from the Middle East and Thailand's neighboring countries are expected to recover faster than patients from China and from long-distanced Africa. Demand from Chinese patients, temporarily affected by China's Zero COVID policy, should gradually improve during the next two years. Over the medium term, we expect VTN should be able to expand its revenue base and maintain its competitive strengths in medical tourism market.

Strong operating performance in 2022

In 2021, VTN's healthcare service revenue rose by 21% year-on-year (y-o-y) to THB2.11 billion, after its business was hit by COVID-19 with the number of foreign patients falling in 2020. Since the fourth quarter of 2021, foreign patients have increasingly sought medical services at Vejthani Hospital involving more complex and high-acuity treatments, such as for elective surgery and treatment of diabetic wounds. On average, foreign patients remained in hospital for longer periods than local patients, helping drive income from high intensity medical care.

For the first three months of 2022, outpatient visits totaled 687 persons per day, a rise of 40% y-o-y. The growth was from both Thai and foreign patients. The average number of inpatients per day rose by 34% y-o-y to 133 inpatients.

Looking ahead, with the government's plans to fully open the country to foreign arrivals, we expect the number of fly-in patients will ramp-up and the revenue growth from international patients to boost VTN's overall performance. In our base-case forecast, we expect VTN's operating revenue to grow by 8%-15% per annum during the next three years.

VTN reported earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB580-THB650 million per annum during the pre-COVID-19 period. Its EBITDA margin has been stable, ranging between 22% and 24%, consistently in line with listed peers. In 2021, VTN generated EBITDA of nearly THB550 million, with an EBITDA margin of 25.3%. VTN has focused on boosting its operating efficiency, reducing waste, and improving asset utilization. In our forecast, we expect VTN to maintain its EBITDA margin at about 24%-26% during the next three years, reflecting rising numbers of foreign patients and revenue intensity from specialized healthcare treatments and superior tertiary care. However, we expect major operating expenses to increase, to support the personnel expenses and its medical resources' retention program.

Exposed to single asset risk

VTN generates most revenues from the Vejthani Hospital located on Ladprao road in Bangkok. With its single-asset site, VTN's income base was relatively small, compared with its listed peers. Its revenue has been in the range of THB2-THB3 billion per annum during 2017-2021, accounting for approximately 2% of the aggregate revenues reported by all listed peers. Its profitability, measured by EBITDA, was THB300-THB650 million per year during the same period.

We view that VTN's revenues have heavily relied on patients from the Arab countries. Fluctuations in oil prices and/or economic downturns in the Middle East could affect the spending levels and numbers of patients from this region. In this regard, we believe the expansion with a more diverse customer base will help stabilize the company's operations and revenues in the long term.

Seeking opportunities in new segments

VTN is investing in a new psychiatric hospital for an investment cost of about THB500 million. The new hospital will feature 27 outpatient examination rooms and 30 inpatient wards in an 8-storey building in Nonthaburi province. This green-field hospital project is expected to be completed within 2023. VTN is also looking at opportunities in superior tertiary care services for future growth.

We view the expansion plans may pose execution risks and financial pressures on VTN's balance sheet, as the new mental health hospital will likely need 2-3 years to ramp up operation and gain recognition in psychiatric medical care.

Leverage to rise during 2022-2024

VTN's total debt stood at about THB1 billion at the end of 2021, up from nearly THB600 million in 2019, owing to the construction of a new orthopedics building during 2019-2021. In 2021, the net debt to EBITDA ratio was at 1.3 times. The ratio of funds from operations (FFO) to total debt was 62%.

We expect VTN's debt level to rise during the development period of the new psychiatric hospital in 2022-2023. Half of the required funding for the project will be derived from debt financing. We also expect the company to spend approximately THB400 million per year for improvements of Vejthani Hospital.

With the new psychiatric hospital development, we expect its debt to EBITDA ratio to stay at 1 times during the next three years, while the FFO to total debt ratio to remain above 35%.

Currently, the company is studying to develop one more superior tertiary care hospital in Bangkok. This new hospital project worth about THB3 billion is planned to develop during 2024-2027, after the completion of the new psychiatric hospital. In this scenario, the company's debt to EBITDA ratio could rise to 2-3.5 times during 2023-2025.

High proportion of secured debt

As of March 2022, around 70% of VTN's debts was secured debts. As its secured debt ratio exceeded the 50% threshold according to TRIS Rating's "Issue Rating Criteria", we view that VTN's unsecured creditors are significantly disadvantaged to secured debt holders with respect to claims against the company's assets.

Adequate liquidity

We assess VTN's liquidity to be adequate over the next 12 months. VTN's primary sources of funds comprise cash and cash equivalents of THB520 million at the end of March 2022 and projected FFO of THB500 million in 2022. Uses of funds include planned capital expenditures of THB450 million in 2022 and scheduled debt repayments.

Only THB650 million of short-term debt will come due in 2022. The maturing debt will likely be partly repaid and refinanced. We expect the company to continue preserving cash and maintaining sufficient liquidity.

The company is obliged to comply with three key financial covenants on its bank loans, which require the maintenance of a net debt to EBITDA ratio below 3.5 times, a debt to equity ratio below 2 times, and a debt-service coverage ratio (DSCR) not less than 1 times. At the end of December 2022, the ratios were 2 times, 0.9 times, and 4 times, respectively. Based on VTN's improving operating performance, we believe that the company should have no problem complying with the financial covenants.

BASE-CASE ASSUMPTIONS

- Revenues to increase by 8%-15% per annum over the next three years.
- EBITDA margin to be in the 24%-26% range.
- Capital spending of THB450-THB850 million per annum during 2022-2024.

RATING OUTLOOK

The "stable" outlook reflects our expectation that VTN will maintain its market position in the medical tourism segment and continue delivering satisfactory financial results. We expect VTN to adopt prudent financial policies to maintain its key financial ratios during the development of the new hospital.

RATING SENSITIVITIES

A rating upgrade could occur if VTN is able to substantially improve its cash generation, enlarging its EBITDA to more than THB1 billion on a sustainable basis, and/or the company successfully diversifies its revenue base in terms of location and/or customer base, while maintaining a healthy financial status. A downward rating action could be triggered if VTN's financial profile deteriorates materially or if the company's operating performance is significantly worse than forecast.

COMPANY OVERVIEW

VTN was established in 1990 and became the public company in 1993. Vejthani Hospital commenced operation in 1994. As of March 2022, the major shareholder of VTN was the Souksakit family with a combined shareholding of 44.16%

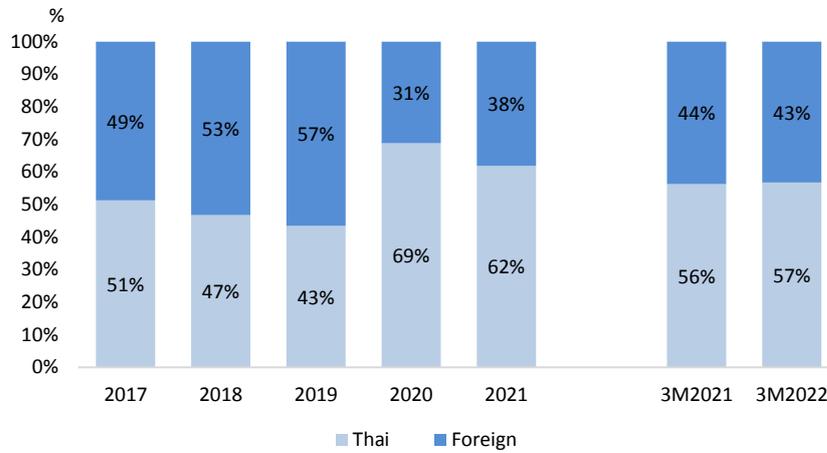
The company is one of the premium private healthcare providers in Thailand, targeting local patients in the middle- to high-income segments and international patients. VTN has a service capacity of 193 inpatient beds. The company delivers healthcare services spanning tertiary, specialized treatment, and complex medical care levels.

VTN recently invested in a new hospital "Bangkok Mental Health Hospital" (BMH) in the greater Bangkok area. The hospital is currently under construction. VTN holds a 56% interest in BMH.

The company's total consolidated revenue was THB2.1 billion in 2021. Normally, around 55% of total healthcare service revenue is derived from international patients. Revenue from the inpatient department (IPD) contributed 65% of the total; the remainder came from outpatient department (OPD). In 2021, foreign patients accounted for nearly 40% of total revenues. Self-pay patients made up 45.4% of patient revenue, followed by government-contracted patients (31.5%), and patients covered by health insurance (23.1%).

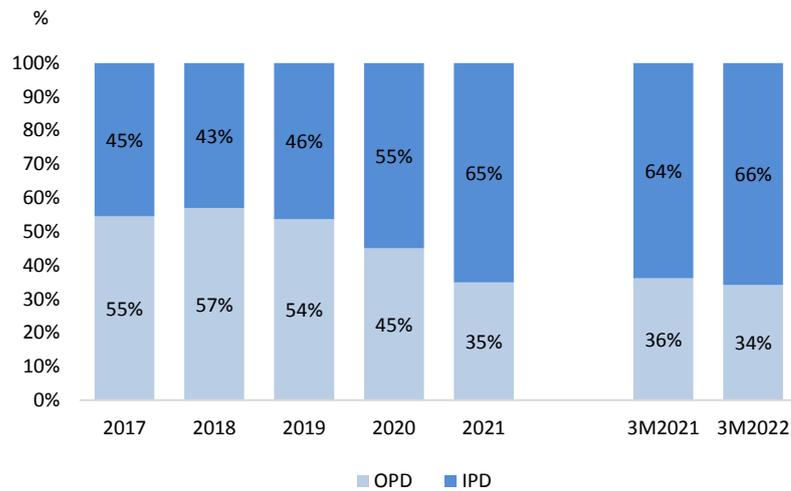
KEY OPERATING PERFORMANCE

Chart 1: VTN's Revenue Contribution by Nationality



Sources: VTN

Chart 2: VTN's Revenue Contribution by Service Type



Sources: VTN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	2,150	1,814	2,764	2,592	2,310
Earnings before interest and taxes (EBIT)	345	103	443	424	264
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	544	298	651	579	422
Funds from operations (FFO)	447	253	540	478	340
Adjusted interest expense	44	35	34	33	39
Capital expenditures	473	386	389	384	145
Total assets	3,816	3,797	3,395	2,551	2,422
Adjusted debt	716	619	500	405	411
Adjusted equity	2,179	1,998	2,017	1,492	1,333
Adjusted Ratios					
EBITDA margin (%)	25.31	16.41	23.56	22.36	18.28
Pretax return on permanent capital (%)	10.34	3.32	17.40	19.56	12.99
EBITDA interest coverage (times)	12.28	8.60	19.23	17.59	10.88
Debt to EBITDA (times)	1.32	2.08	0.77	0.70	0.97
FFO to debt (%)	62.33	40.82	108.13	117.98	82.76
Debt to capitalization (%)	24.74	23.66	19.85	21.34	23.55

* Consolidated financial statements

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Vejthani PLC (VTN)

Company Rating:	BBB
Rating Outlook:	Stable

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