

BANGKOK CHAIN HOSPITAL PLC

No. 200/2021
4 November 2021

CORPORATES

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

Last Review Date: 10/11/20

Company Rating History:

Date	Rating	Outlook/Alert
08/11/19	A-	Positive
17/09/09	A-	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Bangkok Chain Hospital PLC (BCH) and the ratings on BCH's senior unsecured debentures to "A" from "A-", and revises the outlook to "stable". The upgrade reflects BCH's strengthened financial profile, supported by a solid operating performance with enlarged revenue base and strong profitability.

The ratings continue to reflect BCH's strong competitive position in two key segments: middle-income cash patients and patients covered by the government social security coverage (SC) scheme, its moderate leverage, and ample liquidity. However, these strengths are partially offset by the intense competition from local and international healthcare service providers.

KEY RATING CONSIDERATIONS

Strong competitive position in both cash and SC segments

BCH has a strong competitive position in both cash patient and SC patient segments. Normally, revenues from the cash patient segment account for around 65% of its total patient revenues, while revenues from the SC segment constitute around 35%.

Revenues from the cash patient segment grew at a compound annual growth rate (CAGR) of 11% during 2014-2019, before dropping slightly by 2% in 2020 due to the Coronavirus Disease 2019 (COVID-19) pandemic. For the first six months of 2021, BCH's patient revenues in the cash segment jumped significantly by 88% year-on-year (y-o-y), to THB5.1 billion. The revenue increase was mainly driven by the improved performance of most of its existing network hospitals which scaled up the healthcare capacities to cope with COVID-19 infections.

BCH's revenues from the SC segment reached THB3.2 billion in 2020, a 5% increase from 2019, and was relatively flat at about THB1.5 billion for the first half of 2021. Revenues were driven by the increasing number of insured persons. The number of insured persons registered with BCH at the end of June 2021 was 892,437, up from 881,205 at the end of 2020. The SC registrations in the BCH hospital network accounted for around 7% of all persons registered under the SC scheme. The sizable base of registered persons yields economies of scale and helps sustain the utilization levels of BCH's network of hospitals.

Rising performance induced by COVID-19

BCH's performance outperformed the market during the fallout of COVID-19 in 2020-2021. For 2020, while a combined revenues of private hospitals listed on the Stock Exchange of Thailand (SET) declined by 12%, BCH proved resilient amid the COVID-19 pandemic with revenue up by 0.3% for the same period. During the second wave and third wave of the outbreaks in April-September 2021, most private hospitals benefitted from increasing COVID-19 patients with the industry-wide revenue rising by 9% y-o-y in the first half of 2021. BCH's revenue jumped by 56% y-o-y to THB6.7 billion during the same period.

The outpaced growth of BCH's revenue was attributed mainly to its large base of Thai patients and its sizable hospital capacity for COVID-19-related healthcare services. BCH increased its capacity for testing of COVID-19 infections, with laboratory services of up to 16,000 specimens per day, and added hospital facilities to accommodate the surge in COVID-19 patients. BCH

has also cooperated with various hotels in treating patients with mild symptoms in the “hospital” facilities and field hospitals. The company will also provide COVID-19 testing under the government’s “Factory Sandbox” program to prevent factory clusters, in the last quarter of 2021.

Revenue from the COVID-19-related services was about THB2 billion for the first half of 2021, contributing about 34% of its total patient revenue, up from THB0.7 billion in 2020. During the flare-up in COVID-19 cases in Thailand, new infections and the admission rate of COVID-19 inpatients reached its peak in the third quarter of 2021. We expect rising numbers of COVID-19 patients to raise BCH’s average bed utilization in 2021 and boost total revenue.

In addition, a large number of people interested in inoculation with the “Moderna” vaccine have booked vaccine administration with BCH’s network hospitals, totaling about 2.26 million doses. About 19% of total vaccine bookings are expected to be administered within the last quarter of 2021, and the remaining of 1.84 million doses being administered in the first half of 2022. The Moderna vaccination will provide additional extra income during 2021-2022.

Under our base-case assumptions, we expect BCH’s operating revenues to reach about THB17 billion in 2021, and then stay at about THB13 billion in 2022, driven by its substantial healthcare services related to COVID-19 and the Moderna vaccination. The revenue is expected to return to its normal operating levels of about THB10 billion per year during 2023-2024. The growth during 2023-2024 will be driven by a larger base of cash patients, an increasing number of SC insured patients, and greater service offerings of both its existing and newly opened hospitals.

New hospitals help enlarge capacity and patient base

BCH opened three new hospitals during 2020-2021. These new hospitals have helped enlarge the company’s patient base and build larger sources of income.

In May 2020, BCH opened the 90-bed Kasemrad International Hospital Aranyaprathet in Sa Kaeo province, targeting general local cash patients and international patients. In addition, BCH opened the 115-bed Kasemrad Hospital in Prachinburi province (KH-Prachinburi), located near the 304 Industrial Park, on 1 January 2021. The hospital provides secondary to tertiary medical care, targeting both the general cash patient segment and patients under the SC scheme in the industrial park and communities nearby. KH-Prachinburi will have its own SC quota for the registration of employees and SC insured persons of about 78,000 persons in 2022, expanding BCH’s patient base covered by the SC scheme.

These two new hospitals performed well, with their revenues continuing to grow, and the profitability measured by earnings before interest, taxes, depreciation, and amortization (EBITDA) could turn positive within a short period.

Recently, the company opened Kasemrad International Hospital Vientiane (KIH-Vientiane), in the Lao People's Democratic Republic (Lao PDR), in August 2021. KIH-Vientiane is BCH’s first hospital in a foreign country, accommodating 110 inpatient beds and 43 examination rooms. The hospital targets mid-to-high local patients and international patients in the Lao PDR. We expect BCH’s new hospitals will gradually ramp-up its revenue and profitability over the medium term.

Strong profitability

BCH reported EBITDA of THB2.6 billion in 2020, up by 10% from THB2.4 billion in 2019. Its EBITDA doubled to THB2.5 billion for the first half of 2021, from THB1.2 billion in the same period of the previous year. BCH’s strong profitability is attributed to higher revenue, larger contribution from its cash patient segment, its expense control implementation, and improving efficiency. BCH’s EBITDA margin had been in the 26%-28% range during 2015-2019. The EBITDA margin rose to 29.3% in 2020 and jumped to an exceptionally high of 37.5% during the first six months of 2021.

Under our base-case scenario, we expect BCH’s EBITDA margin to be about 37% in 2021 and then revert to the mean at 27%-31% during the next three years, reflecting strong revenue base, the company’s efficiency improvement initiatives, and its enhancement of asset utilization. We also expect the profitability of the newly added hospitals to gradually improve over the next three years.

Moderate leverage level

BCH’s interest-bearing debt was THB7.1 billion as of June 2021, slightly down from THB7.3 billion as of December 2020. As BCH delivered extraordinarily high EBITDA during the COVID-19 outbreaks, the net debt to EBITDA ratio declined to about 1.4 times as of June 2021, from 2.5 times at the end of 2020. The ratio of funds from operations (FFO) to total debt was 60% for the first six months of 2021, from the 30%-40% range in the past three years.

In our base-case forecast, we project BCH’s total debt to gradually decline as the company has no plan to expand network hospitals. We estimate its capital expenditure at about THB4 billion in aggregate for the period of 2021-2024. With the projected strong cash flows, we expect BCH to partly finance its capital expenditure from its operating cash flows. Under our base-case scenario, we project BCH’s net debt to EBITDA ratio to be below 2 times during the next three years, while the

FFO to total debt ratio to be over 40%. BCH's debt to capitalization ratio should remain in the 30-40% range. The EBITDA interest coverage ratio should be 15-25 times during the same period.

Ample liquidity

We assess BCH to have ample liquidity in the next 12-18 months. At the end of June 2021, BCH's sources of funds comprised cash and cash equivalents of about THB2 billion, with an undrawn bank facility of THB5.6 billion. FFO is forecast to be THB4-THB5 billion for the next 12-18 months. Funds will be used for scheduled debt repayments and planned capital expenditures. BCH's planned capital expenditures are projected to total about THB1 billion in 2021 and THB0.3-THB1 billion per annum during 2022-2024. About THB0.4 billion of long-term debt will mature in 2021 and about THB2.7 billion of long-term debt and debentures will mature in 2022.

The company is required to keep its liability to equity ratio below 2 times in accordance with the financial ratio covenant on its debentures and bank loans. At the end of June 2021, the ratio was about 1.1 times. Based on BCH's solid financial profile, we believe the company should have no problems complying with the financial covenant.

BASE-CASE ASSUMPTIONS

- Revenues to reach THB17 billion in 2021, decline to THB13 billion in 2022, before returning to THB10 billion per annum during 2023-2024.
- EBITDA margin to reach 37% in 2021 and then remain in the 27%-31% range during 2022-2024.
- Total capital spending of about THB4 billion in aggregate during 2021-2024.

RATING OUTLOOK

The "stable" outlook is based on our expectation that BCH will maintain its strong market position in the cash patient and SC patient segments and continue to maintain a strong financial profile.

RATING SENSITIVITIES

A downward rating action could be triggered if BCH's operating performance and financial position deteriorate significantly for a sustained period. Conversely, ratings could be upgraded should the company's revenue base and cashflow enlarge materially, while maintaining a strong financial profile.

COMPANY OVERVIEW

BCH was established in 1993 and listed on the SET in 2004. As of August 2021, BCH's major shareholder was the Harnphanich family, holding approximately 50% of the outstanding shares. BCH owns and operates 15 hospitals and one polyclinic. BCH has four major hospital brands: World Medical Hospital (WMC), Kasemrad International Hospital (KIH), Kasemrad Hospital (KH), and Karunvej Hospital (KV). Each brand targets a different patient segment. For example, WMC aims to service high-income self-pay and international patients, KIH provides service to upper middle-income self-pay patients, KH targets middle-income self-pay patients and SC patients, and KV focuses on patients enrolled in the SC scheme. In 2021, BCH opened its first hospital in a foreign country, a 110-bed KIH-Vientiane, in the Lao PDR.

The revenue contributions of the self-pay and SC groups in the first six months of 2021 constituted approximately 77% and 23% of BCH's total revenue, respectively. Revenues from the outpatient department (OPD) contributed about 54% of patient revenue in the cash segment; the remainder came from inpatients.

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Services

Services	2018		2019		2020		Jan-Jun 2021	
	Mil. THB	%						
Cash segment	5,155	64	5,791	65	5,688	64	5,105	77
Social security coverage	2,919	36	3,089	35	3,240	36	1,525	23
Total	8,073	100	8,880	100	8,928	100	6,630	100

Source: BCH

Chart 1: BCH Patients Enrolled in SC Scheme



Source: BCH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	6,713	9,014	8,992	8,177	7,353
Earnings before interest and taxes (EBIT)	2,090	1,842	1,724	1,670	1,535
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,520	2,642	2,407	2,264	2,084
Funds from operations (FFO)	2,060	2,193	1,982	1,842	1,668
Adjusted interest expense	64	137	140	137	146
Capital expenditures	321	2,701	1,750	1,259	1,120
Total assets	18,503	16,527	14,116	12,627	12,674
Adjusted debt	5,412	6,526	4,828	4,197	4,056
Adjusted equity	8,888	7,626	6,978	6,398	5,912
Adjusted Ratios					
EBITDA margin (%)	37.54	29.31	26.77	27.69	28.34
Pretax return on permanent capital (%)	20.28 **	13.27	14.38	14.55	14.45
EBITDA interest coverage (times)	39.17	19.33	17.24	16.54	14.30
Debt to EBITDA (times)	1.37 **	2.47	2.01	1.85	1.95
FFO to debt (%)	60.14 **	33.60	41.04	43.90	41.11
Debt to capitalization (%)	37.85	46.11	40.89	39.61	40.69

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Bangkok Chain Hospital PLC (BCH)

Company Rating:	A
Issue Ratings:	
BCH22DA: THB1,000 million senior unsecured debentures due within 2022	A
BCH226A: THB1,200 million senior unsecured debentures due within 2022	A
Rating Outlook:	Stable

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