BUMRUNGRAD HOSPITAL PLC

No. 87/2014 27 October 2014

Company Rating: A

Issue Rating:
Senior unsecured A

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
21/10/11	A	Stable

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Rating Rationale

TRIS Rating affirms the company and senior unsecured debenture ratings of Bumrungrad Hospital PLC (BH) at "A". The ratings reflect BH's leading position in Thailand's private healthcare industry, its strong market position in the medical tourist segment, and stable cash flow. However, these strengths are partially offset by competition in local and international healthcare markets, the risk from having single location, and the potential risks from BH's future investments.

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 service capacities of 5,500 outpatients per day and 580 registered inpatient beds. Foreign patients account for approximately 60% of the total revenue. About 70% of total revenue is from self-pay patients. In March 2014, BH set up Health Horizon Enterprise Pte. Ltd. (HHE), a subsidiary registered in Singapore, to acquire Bumrungrad Mongolia LLC (BML). BML held a 51% stake in Seoul Seniors Tower LLC (SST). SST owned and operated Ulaanbaatar Songdo Hospital (UBSD) in Mongolia. The acquisition cost Bt395 million. Thus, the acquisition has made a minimal contribution to BH's revenues.

BH's strong business profile reflects its solid brand equity and three decades of respectable medical records. BH mostly targets premium local and foreign patients and competes by differentiating its products based on service and quality. Patients from the Middle East account for the largest portion of BH's total foreign patients. Accepting many foreign patients gives BH diverse sources of revenue. As a result, BH can ease the competitive pressure it faces and reduce its reliance on domestic demand for healthcare services.

In 2013, despite encountering a domestic economic downturn and political instability, BH's operating performance remained strong. Total revenue grew to Bt14,346 million in 2013, up by 10.5% from Bt12,983 million in 2012. The rise was driven by service price raise and an increase in revenue intensity. The company's gross margin jumped to 38.4% in 2013 from 36.5% in 2012. As a result, earnings before interest, tax, depreciation, and amortization (EBITDA) was strong at Bt4,122 million in 2013, up from Bt2,200-Bt3,500 million per year during 2008-2012. For the first six months of 2014, BH further faced ongoing political environment in Thailand, leading to decline in the number of foreign patients. However, the drop in foreign patients was offset by a significant rise in the revenue intensity of its foreign inpatients. As a result, the total revenues from foreign patients for the first seven months of 2014 continued rising to Bt4,420 million, up by 3.7% over the same period of 2013. Revenue from Thai patients, both inpatients and outpatients increased as well. During the first seven months of 2014, revenue from Thai patients grew by 10.2% over the same period of 2013. BH's gross margin rose to 39.2% in 2014, from 37.9% in 2013.

TRIS Rating expects BH to continue delivering solid operating performance. Revenue is forecasted to grow by at least 6% per annum during the next three years. The operating margin before depreciation and amortization (operating margin) is expected to remain stable, averaging around 25% or higher, over the next three years.

BH is currently expanding yet still focusing on the premium healthcare segment. The company acquired two land plots during the past three years for future expansion. One plot is on Petchburi road and the other is on Sukhumvit

Soi 1. On the Petchburi road site, BH will build a 200-bed hospital facility. The total investment for these two projects is approximately Bt9,800 million, excluding land costs. Currently, the Petchburi campus has been delayed to 2015 due to redesign and resubmission of Environmental Impact Assessment (EIA) approval. The construction is expected to start in June 2015 and finish by 2017. The Sukhumvit Soi 1 plot will be used for parking lot until it is needed. BH's investment plans will be Bt600-Bt4,000 million per year during 2014-2017. BH typically keeps a cash balance of Bt3,000-Bt6,000 million per year. Funds from operations (FFO) are strong and expected to range from Bt3,300-Bt3,900 million per annum during the next three years. As a result, TRIS Rating believes that these investments will not materially impact BH's sound financial profile. At the end of June 2014, BH's total debt comprised only Bt5,000 million of long-term bonds. Its total debt to capitalization ratio stood at 33.22%.

Rating Outlook

The "stable" outlook is based on the expectation that BH will maintain its leading position in the premium healthcare segment and continue delivering strong performance. Its high cash balances and the stability of its cash flow will provide financial flexibility while the company is investing and expanding. Looking forward, following the company's investment plan, BH is able to maintain its debt-to-capitalization ratio below 50% in the next few years.

Bumrungrad Hospital PLC (BH)

Company Rating:	A
Issue Ratings:	
BH16DA: Bt1,500 million senior unsecured debentures due 2016	A
BH18DA: Bt1,000 million senior unsecured debentures due 2018	A
BH21DA: Bt2,500 million senior unsecured debentures due 2021	A
Rating Outlook:	Stable

KEY RATING CONSIDERATIONS

Strengths/Opportunities

- Leading private hospital in premium segment
- Strong market position in medical tourism segment
- Stable cash flow
- Growing demand for healthcare

Weaknesses/Threats

- Intense competition
- Risk from a single location

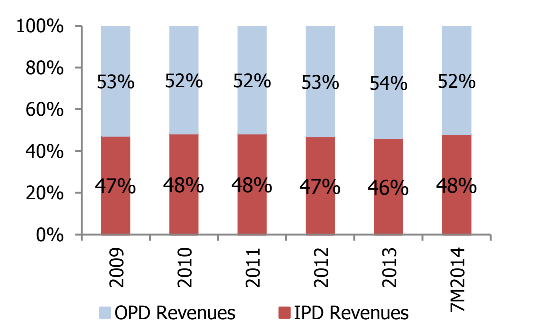
CORPORATE OVERVIEW

BH operates a hospital in Bangkok under the name "Bumrungrad International Hospital". The company was established in 1980 as a 220-bed facility. BH was listed on the Stock Exchange of Thailand (SET) in 1989. In 1997, the company opened a 554-bed facility operated by a subsidiary, Bumrungrad Medical Center Co., Ltd. (BMC). In 2004, BMC sold all its movable assets and transferred its hospital operating licenses back to BH.

The company's flagship hospital in Bangkok generates over 95% of total revenue. At the end of June 2014, the hospital had service capacities of 5,500 outpatient (OP) visits per day and 580 registered inpatient (IP) beds. The available number of beds was 544. BH renovated the IP wards in its main facility, adding an additional 58 IP beds on the 12th Floor of the Bumrungrad Hospital building at the end of July 2014. The revenue contributions from the OP and IP segments have stayed about equal. Foreign patients account for approximately 60% of BH's total revenue. About 70% of BH's total revenue is from self-pay patients. The remaining 30% is from insurance payments and corporate contracts. Corporate contracts also cover patients from the Middle East region, whose services are paid by their respective state authorities.

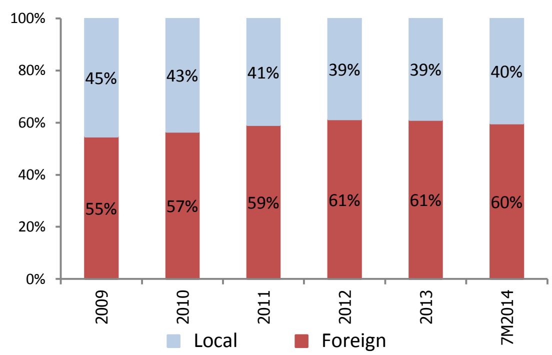
At the end of August 2014, BH's single largest shareholder was Bangkok Dusit Medical Services PLC (BGH), holding about 23.95% of BH's total outstanding shares. BGH became BH's largest shareholder in 2010. The second largest shareholder was Bangkok Bank PLC (BBL) and its affiliates, which includes BBL, Sinsuptawee Asset Management Co., Ltd., and Bangkok Insurance PLC. BBL and its affiliates together held approximately 23.54%.

Chart 1: BH's Revenue Contribution by Service Type



Source: BH

Chart 2: BH's Revenue Contribution by Nationality



Source: BH

RECENT DEVELOPMENTS

- ***Set up new subsidiaries***

In January 2014, BH set up Bumrungrad Personnel Development Center Co., Ltd., with total registered capital of Bt5 million. The center will train and develop personnel resources for its healthcare service business. The company also set up a holding company in Switzerland, Vitallife International AG ("VTLAG"), with total registered capital of CHF100,000. VTLAG is owned 51% by Life and Longevity Ltd., which is a subsidiary of BH. VTLAG is BH's vehicle for overseas investment.

- ***Acquisition of a hospital in Mongolia***

In March 2014, BH set up HHE, a subsidiary registered in Singapore, to acquire BML. BML holds a 51% stake in SST. SST owns and operates UBSD in Mongolia. The acquisition cost was Bt395 million. UBSD will be used for a regional referral hospital, sending patients to BH's flagship hospital in Bangkok. Total revenue and net profit of UBSD in 2013 was only Bt327 million and Bt8 million, respectively. Thus, UBSD's contribution to BH is expected to be relatively minimal.

BUSINESS ANALYSIS

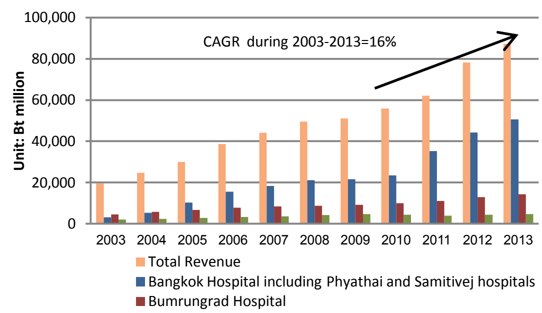
- ***Leading private hospital in the premium segment***

BH's strong business profile reflects its market position as the leading private hospital in the premium segment of Thailand's healthcare service industry. The company's flagship hospital in Bangkok, Bumrungrad International Hospital, has earned very strong brand recognition, built over three decades. BH targets mostly premium local and foreign patients, and differentiates itself from its competitors based on superior services and the quality of the services it offers. The hospital is highly regarded for its broad range of specialist services, tertiary care, and use of advanced technologies.

BH is the second-largest SET-listed healthcare provider, in terms of revenue, following BGH. In TRIS Rating's view, BH's ability to post strong and steady growth in revenues is underpinned by a strong brand name and a respected medical track record. Over the past five years, except for the price inflation, BH's revenue has grown satisfactorily for two reasons: more patients and higher revenue intensity. In addition to the company's high quality in medical staff, BH continually invests in high technological medical equipments. Therefore, the company can undertake more complex cases and charge higher prices. Revenue intensity has played a larger role in driving the growth in BH's revenues over the past few years.

Total revenue of SET-listed hospital operators also grew significantly in 2003-2013, from Bt19,672 million to Bt87,202 million. The compound annual growth rate (CAGR) of BH in the past 10 years was 16%.

Chart 3: Total Revenue of SET-listed Hospital Operators



Sources: 1) BH
2) SET

- ***Strong position in the medical tourism segment***

BH's business profile is supported by a strong share of the medical tourism segment, as Thailand is one of the most popular medical hubs in the Asia-Pacific region. BH has maintained a steady flow of foreign patients during the past several years. The number of foreign OP visits per day ranged between 1,100-1,400 patients during 2010 through 2013, or approximately 45% of daily OP visits. Foreign patients also accounted for about half of the total IP admissions during the past three years.

About 60% of BH's total revenue has been derived from foreign patients, particularly patients from the Middle East. Patients from the United Arab Emirates (UAE), BH's top foreign patient group, accounted for 8%-11% of BH's total revenue during the past three years. BH's strong market position among patients from the Middle East is derived from the company's established referral network. However, in the first half of 2014, patients from Myanmar grew significantly, comprising 7.7% of BH's total sales, while patients from the UAE made up only 6.4%. The growth in the number of patients from Myanmar was underpinned by the strong demand for healthcare, especially tertiary healthcare, from high income individuals.

In TRIS Rating's view, by accepting foreign patients, BH has diverse sources of revenue, reducing its reliance on domestic demand and reducing the competitive pressure it faces. The large number of foreign patients also yields economies of scale, as overhead costs for hospitals accepting foreign patients are relatively high. However, the number of foreign patients was partly affected by the recent economic downturn in Thailand and political instability. The total volume of foreign patients at BH grew by only 1% year-on-year (y-o-y) in 2013. During the first six months of 2014, Thailand continued to struggle with political turmoil. As a result, the number of foreigners traveling to Thailand dropped by 10% y-o-y. The number of foreign patients visiting BH also declined by 8%.

- ***Capacity expansion will serve the domestic market***

Over the next five years, BH plans to focus on the domestic market. BH will expand the capacities of the OP and IP departments at its flagship facility. BH also has expansion projects planned for its newly-acquired land plots on Petchburi road and Sukhumvit Soi 1. The plot on Petchburi road will house a 200-bed hospital facility. The Petchburi campus has been delayed to 2015 due to a building redesign. BH must resubmit its project for the EIA approval. Construction is expected to start in June 2015 and finish by 2017. The Sukhumvit Soi 1 plot will be used for a parking lot until it is needed. The total investment for these two projects is approximately Bt9,800 million, excluding land costs. The capacity expansions will help reduce BH's reliance on a single location.

- ***Healthcare expenditures are expected to rise***

The Thai healthcare industry has grown steadily over the past 10 years. The CAGR of healthcare expenditures was around 6.5% from 2002 through 2012. Nationwide, healthcare expenditures rose from around Bt214 billion in 2002 to Bt402 billion in 2012. The growth was driven mainly by the public sector. After the introduction of the universal healthcare scheme in 2002, Thai citizens are covered by at least one of three public health protection schemes. The three schemes are the universal healthcare scheme, covering 75% of the population, the social security scheme (16%), and the civil servant medical benefits scheme (8%). Because of the expanded coverage, government healthcare expenditures increased from around 63% of total healthcare expenditures in 2002 to around 75% in the past five years. Currently, Thailand is considered an aging society because the population aged more than 60 years old accounted for more than 10% of the total population. The National Economic and Social Development Board (NESDB) estimated that number of people aged 60 years old or higher will increase from 12% of the total population in 2010 to 18% in 2020 and 25% in 2030. The rising proportion of the elderly will increase the demand for healthcare services from both the public and private sectors.

FINANCIAL ANALYSIS

- ***Profitability remains strong***

BH's operating performance improved steadily in the past several years. Total revenue grew to Bt14,346 million in 2013, up by 10.5% from Bt12,983 million in 2012 and Bt11,136 million in 2011. The rise was driven by price increases and an increase in revenue intensity. The company's gross margin jumped to 38.4% in 2013, from 36.5% in 2012. As a result, EBITDA was strong at Bt4,122 million in 2013, up from Bt2,200-Bt3,500 million per year during 2008 through 2012. In addition, although the ongoing political turmoil cut the number of foreign patients, revenues from foreign patients for the first seven months of 2014 rose to Bt4,420 million, up by 3.7% over the same period of 2013. Revenue from Thai patients, both IPs and OPs, increased as well. During the first seven months of 2014, revenues from Thai patients grew by 10.2% y-o-y. BH's gross margin also rose to 39.2%, from 37.9% in 2013.

BH is expected to continue delivering solid operating performance in the next few years. The company's operating margin has been strong and stable, ranging between 23%-26% during the past three years. BH's operating margins have stayed five to eight percentage points above the average operating margin of other SET-listed healthcare providers. The company's ability to increase prices reflects the strong demand for premium healthcare services.

In the medium term, TRIS Rating expects BH's revenue to grow by at least 6%-8% per annum during the next three years. The operating margin is expected to remain stable at 25% or higher over the next three years.

- ***Sound capital structure despite expansion plans***

BH's capital structure is expected to remain strong during its investment cycle. At the end of June 2014, BH had Bt5,857 million in cash on hand, while total debt comprised only Bt5,000 million in long-term bonds. FFO is expected to range from Bt3,500-Bt5,200 million per annum over the next three years. BH's cash on hand and its relatively stable cash flow from operations will be sufficient to fund its planned capital expenditures and dividend payments. BH also has approximately Bt3,550 million in uncommitted, undrawn credit lines with banks. This amount gives BH plenty of financial flexibility to pursue any acquisition opportunity that may arise. Over the next three years, the company plans to spend approximately Bt8,500 million. The planned capital expenditures are mainly for its expansion projects and maintenance. Dividend payments are expected to be Bt1,300-Bt1,600 million per annum. The company has no debt due during the next 12 months. At the end of June 2014, BH's debt to capitalization ratio stood at 33.22%. Despite its planned expansion, BH's debt to capitalization ratio is expected to maintain at around 30%-35% over the next three years. In order to maintain the company's credit quality, the debt to capitalization ratio should be kept below 50%.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		--------------------------- Year Ended 31 December ----------------------				
	Jan-Jun 2014	2013	2012	2011	2010	2009
Sales and service revenues	7,380	14,346	12,983	11,136	9,936	9,201
Finance cost	93	148	241	189	68	91
Net income from operations	1,250	2,466	1,698	1,543	1,232	1,207
Funds from operations (FFO)	1,674	3,197	2,700	2,005	1,906	1,725
Capital expenditures	699	2,232	1,020	1,090	694	851
Total assets	17,980	17,252	15,985	13,473	9,152	8,567
Total debts	5,145	5,142	4,960	4,955	1,530	1,620
Total liabilities	7,636	7,655	7,474	6,739	3,082	3,094
Shareholders' equities	10,345	9,597	8,510	6,734	6,069	5,473
Depreciation & amortization	493	882	709	648	596	539
Dividends	875	1,386	912	693	620	583
Operating income before depreciation and amortization as % of sales	27.38	26.94	24.30	24.05	23.47	23.21
Pretax return on permanent capital (%)	16.18 **	22.97	21.77	23.21	24.61	25.17
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	23.20	27.87	14.32	15.24	35.24	25.09
FFO/total debt (%)	51.33 **	62.16	54.43	40.47	124.56	106.50
Total debt/capitalization (%)	33.22	34.89	36.82	42.39	20.13	22.84

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

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