BUMRUNGRAD HOSPITAL PLC

No. 102/2016 28 September 2016

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 current worldwide economic slowdown, which may reduce the number of foreign patients.

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 6,260 outpatients per day and 637 registered inpatient beds (including Ulaanbaatar Songdo Hospital in Mongolia). The company focuses mainly on the tertiary care treatment. Foreign patients account for more than 50% of the total number of patient visits annually. About 70% of total revenue is from self-pay patients.

BH's strong business profile reflects its solid brand equity with more than three decades of respectable clinical outcomes. BH mostly targets premium local and foreign patients and competes through differentiation based on services offered and service quality. The company has a very strong revenue generating capacity per patient, a key factor in attracting and retaining talented medical staff and specialists.

Patients from the Middle East account for the largest portion of BH's total foreign patients. Revenue contribution from foreign patients comprised around 60%-65% of BH's total revenues. The relatively high contribution of foreign patients helps enhance BH's revenue base and profitability since foreign patients usually have longer length of stay and higher revenue intensity. In addition, the diverse nationalities of its patients help reduce its reliance on domestic demand for healthcare services.

In 2015, despite an economic slowdown, BH's operating performance remained strong. Total revenue rose to Bt17,660 million in 2015, growing by 13% year-on-year (y-o-y). The rise was driven by service price raise and an increase in revenue intensity. The company's operating margin, as measured by operating income before depreciation and amortization as a percentage of revenue, rose to 30.6% in 2015 from 28.0% in 2014. As a result, earnings before interest, tax, depreciation, and amortization (EBITDA) improved to Bt5,436 million in 2015, up from Bt4,605 million in 2014. Generally, Middle East patients contributed around 21%-24% of total revenue. For the first six months of 2016, falling oil prices and earlier start to Ramadan led to a decline in the number of patients from Middle East countries traveling to Thailand. However, the drop in foreign patients was offset by a rise in the price of service for foreign inpatients. As a result, the total revenues from foreign patients for the first seven months of 2016 grew to Bt5,926 million, up by 3.6% over the same period of 2015. Revenue from Thai patients, both inpatients and outpatients, increased as well. During the first seven months of 2016, revenue from Thai patients grew by 4% over the same period of 2015. BH's operating income before depreciation and amortization rose to 32.4% during the first half of 2016, from 30.9% over the same period of 2015.

Going forward, TRIS Rating expects BH to continue delivering solid operating performances. Revenue is expected to grow by around 8% per annum during the next three years. The operating margin is expected to remain healthy, averaging 30% or higher annually over the next three years.

BH is currently expanding yet still focusing on the premium healthcare segment. The company has acquired two land plots nearby existing campus for its future expansion. One plot is on Sukhumvit Soi 1 and the other is on Petchburi Road. Plans for the Sukhumvit Soi 1 plot comprise three buildings, one of which is primary for a parking lot, the second is a training center, and the third is an outpatient clinic. The total investment cost will be Bt2,300 million. In addition, the company spent Bt1,200 million renovating BI Tower, one of the building in its existing main campus. The maintenance capital expenditures will be set around Bt1,300-Bt1,800 million per annum. Due to slow growth in the number of patients coupled with additional capacities on its existing buildings, BH's plan to build a 200-bed hospital on Petchburi road has been delayed until additional capacity is needed. As a result, BH's total capital expenditures for 2016-2019 will be around Bt15,000 million

BH's liquidity is relatively strong. At the end of June 2016, cash on hand and marketable securities stood at Bt7,701 million. Funds from operations (FFO) are expected to range from Bt5,000-Bt6,000 million per annum during the next three years. Dividend payments are expected to be Bt1,700-Bt2,000 million per annum. At the end of June 2016, BH's total debt comprised Bt5,000 million of long-term bonds. The total debt to capitalization ratio stood at 28.36%. BH's significant amount of cash on hand and strong cash flow from operations should be sufficient to fund its capital expenditures and dividend payments during 2016-2019. Therefore, BH's leverage should not increase from the current level.

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 financial results. Its high cash balances and the stability of its cash flow will provide financial flexibility while the company is investing and expanding. Looking forward, despite the company's investment plan, BH's debt-to-capitalization ratio is not expected to increase significantly from the current level.

BH's credit ratings could be upgraded should the company successfully diversify its business portfolio while maintaining a strong financial profile. In contrast, the rating downside may occur if BH's operating performance drops significantly from the current level, leading to noticeably weaker profitability and less liquidity for the extended periods.

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 Thailand
- Strong revenue contribution from foreign patients
- Continue delivering strong operating performance
- Sound liquidity and financial flexibility
- Growing demand for healthcare
- Risk from a single location

Weaknesses/Threats

- Intense competition

CORPORATE OVERVIEW

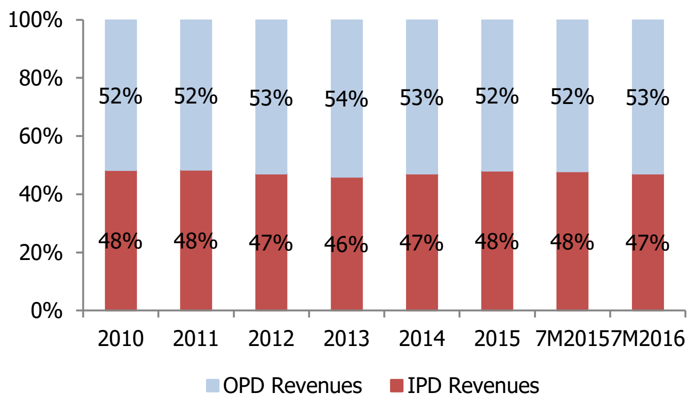
BH operates a hospital in Bangkok under the name "Bumrungrad International Hospital". The company was established in 1980 as a 220-bed facility. BH was listed on the Stock Exchange of Thailand (SET) in 1989. In 1997, the company opened a 554-bed facility operated by a subsidiary, Bumrungrad Medical Center 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 2016, the hospital had service capacities of 6,260 outpatient (OP) visits per day and 637 registered inpatient (IP) beds. For the company's hospital in Mongolia, the hospital had service capacities of 720 OP visits per day and 87 registered IP beds. The revenue contribution from the Ulaanbaatar Songdo Hospital (UBSD) in Mongolia comprised 1% of BH's total revenue. The net profit from UBSD contributed only 0.3% of BH's total net profit. The revenue contributions from the OP and IP segments have stayed about equal. Foreign patients account for approximately 60%-65% 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 cover patients from large private companies.

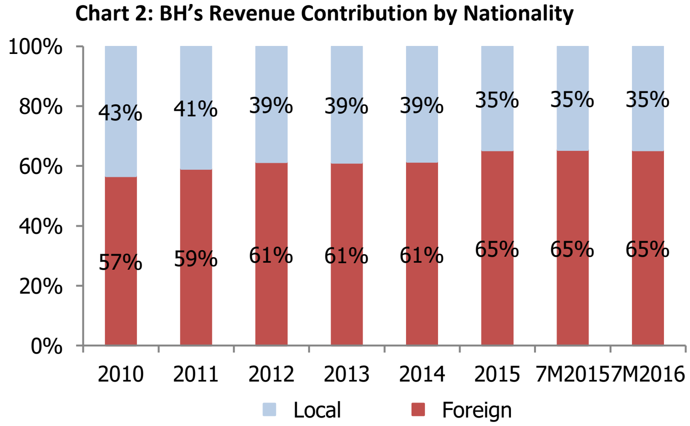
At the end of June 2016, BH's single largest shareholder was Bangkok Dusit Medical Services PLC (BDMS), holding about 23.95% of BH's total outstanding shares. BDMS became BH's largest shareholder in 2010. The second largest shareholder was Bangkok Bank PLC (BBL) and its affiliates, which include BBL, Sinsuptawee Asset Management Co., Ltd., and Bangkok Insurance PLC. BBL and its affiliates together held approximately 26.54%.

Chart 1: BH's Revenue Contribution by Service Type



Source: BH

Chart 2: BH's Revenue Contribution by Nationality



Source: BH

RECENT DEVELOPMENTS

- ***Operate new private clinic in Myanmar***

In May 2015, BH set up Bumrungrad Myanmar Co.Ltd (BM), which is a private clinic in Myanmar. BM is held 80% by BHN, a wholly-owned subsidiary of BH, and 20% by Yangon International Medical Services Co., Ltd.). BM was established to operate a private clinic and diagnostic services in Myanmar. The total investment of BHN in BM was Bt38.8 million.

The purpose of establishing Bumrungrad Myanmar Clinic is to provide primary care for local patients and refer domestic patients in Myanmar to BH's hospital in Thailand. This new private clinic has been opened on 28 June 2016.

- ***Expand existing capacity and delay the Petchburi Project***

BH has acquired two land plots nearby existing campus for its future expansion. One plot is on Sukhumvit Soi 1 and the other is on Petchburi Road. Plans for the Sukhumvit Soi 1 plot comprise three buildings, one of which is primary for a parking lot, the second is a training center, and the third is an outpatient clinic. The total investment cost will be Bt2,300 million. Due to slow growth in the number of patients coupled with additional capacities on its existing buildings, BH's plan to build a 200-bed hospital on Petchburi road has been delayed until additional capacity is needed. Thus, the total capacity expansions will help reduce BH's reliance on a single location.

BUSINESS ANALYSIS

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

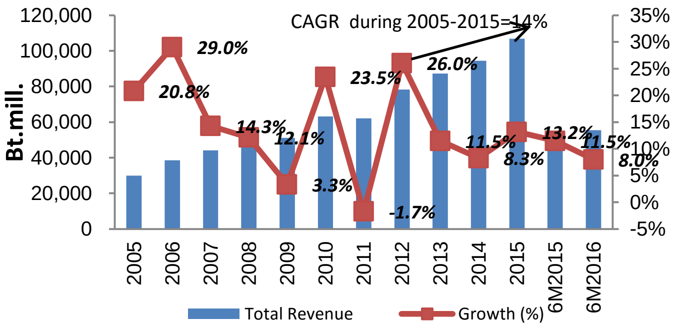
BH's strong business profile reflects its market position as the leading private hospital in the premium segment of Thailand's healthcare service industry. The company's flagship hospital in Bangkok, Bumrungrad International Hospital, has earned very strong brand recognition, built over three decades. 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 BDMS. 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 respectable clinical outcome. 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 2005-2015, from Bt29,938 million to Bt106,832 million. The compound annual growth rate (CAGR) of hospital operators over the past 10 years was

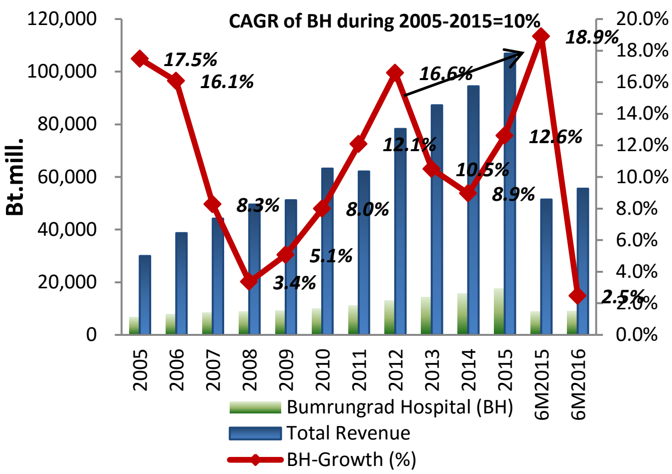
14%. Despite its large revenue base, the CAGR of BH was also strong at around 10% per annum.

Chart 3: Total Revenue of SET-listed Hospital Operators



Source: Stock Exchange of Thailand (SET)

Chart 4: Total Revenue of SET-listed Hospital Operators and BH



Sources: 1) BH
2) SET

- ***Strong revenue contribution from foreign patients***

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. The company has a steady flow of foreign patients during the past several years. The number of foreign OP visits per day ranged between 1,400-1,800 patients during 2013-2015. Foreign patients have also accounted for about 50%-55% 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, have accounted for 21%-24% 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 reputation in medical service and lower prices, compared with hospitals in developed countries. The total volume of foreign patients at BH grew by 7% y-o-y in 2015 following the rising number of international patients from Middle East and Myanmar. The number of international patients dropped by 3% during the first six months of 2016. The drop was mainly driven by lower number of foreign patients from Middle East following falling oil prices as well as an earlier start to Ramadan. However, the drop in the number of patients from UAE is partially offset by the rise in the number of patients from ASEAN, especially Myanmar and Cambodia.

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.

- ***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 10% from 2003 through 2013. Nationwide, healthcare expenditures rose from around Bt276 billion in 2003 to Bt659 billion in 2013. 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 40% of the population, the social security scheme (11%), and the civil servant medical benefit scheme (17%). Currently, Thailand is considered an aging society because the population aged more than 60 years old accounted for more than 15% 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.

- ***Concentrate in a single facility***

At the moment, BH's credit profile is constrained by its premises. The company generates almost all of its revenue from a single facility in Bangkok. The contribution from UBSD is still minimal. Previously, the company planned to set up a 200-bed hospital on Phetchburi road. The Petchburi road campus received the EIA approval in January 2015. The construction is expected to start in the first quarter of 2016 and finish by the end of 2018. However, due to the lower than projected growth in number of foreign patients coupled with the ability to expand its capacity on its main campus, the company decided to postpone the Phetchaburi project for 2-3 more years. Therefore, the concern over its single site risk remains. However, the expansion on its Soi 1 project will partly help alleviate the concentration on its main campus.

FINANCIAL ANALYSIS

- ***Continue delivering strong profitability***

In 2015, despite an economic slowdown, BH's operating performance remained strong. Total revenue rose to Bt17,660 million in 2015, growing by 13% year-on-year (y-o-y). The rise was driven by service price raise and an increase in revenue intensity. The company's operating margin, as measured by operating income before depreciation and amortization as a percentage of revenue, rose to 30.6% in 2015 from 28.0% in 2014, the highest amongst SET-listed peers. As a result, earnings before interest, tax, depreciation, and amortization (EBITDA) improved to Bt5,436 million in 2015, up from Bt4,605 million in 2014. Despite the drop in foreign patients in the first seven months of 2016, a rise in the price of service for foreign inpatients caused the total revenues from foreign patients to increase to Bt5,926 million, up by 3.6% over the same period of 2015. Revenue from Thai patients, both inpatients and outpatients, increased as well. During the first seven months of 2016, revenue from Thai patients grew by 4% over the same period of 2015. BH's operating income before depreciation and amortization rose to 32.4% during the first half of 2016, from 30.9% over the same period of 2015.

TRIS Rating expects BH's revenue to grow by around 8% per annum. In addition, the company is expected to continue delivering solid operating performance in the next few years. The company's operating margin is forecasted to remain strong at around 30% during the next three years.

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

BH's capital structure is expected to remain strong during its investment cycle. The company's debt-to-capitalization declined to 30.1% in 2015 from 33.5 in 2014 due to lower capital expenditure. At the end of June 2016, BH's debt to capitalization ratio stood at 29.30%. Over the next three years, the company plans to spend approximately Bt4,500 million per annum. The planned capital expenditures will cover both its expansion projects and maintenance. Dividend payments are expected to be Bt1,700-Bt2,000 million per annum, around 50% of net profit. BH had Bt7,701 million in cash on hand, while total debt comprised only Bt5,000 million in long-term bonds. FFO is expected to range from Bt5,000-Bt6,000 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. Thus, its debt to capitalization ratio should not be higher than the current level.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Jun 2016	2015	2014	2013	2012	2011
		--------------------------- Year Ended 31 December ---------------------				
Sales and service revenues	8,769	17,660	15,630	12,983	11,136	9,936
Gross interest expense	101	187	186	241	189	68
Net income from operations	1,816	3,382	2,689	1,698	1,543	1,232
Funds from operations (FFO)	2,429	4,410	3,743	2,700	2,005	1,906
Capital expenditures	881	1,541	1,312	1,020	1,090	694
Total assets	22,033	21,298	19,145	15,985	13,473	9,152
Total debts	5,185	5,161	5,152	4,960	4,955	1,530
Total liabilities	8,180	8,197	7,885	7,474	6,739	3,082
Shareholders' equities	13,853	13,100	11,260	8,510	6,734	6,069
Depreciation & amortization	561	1,045	1,045	709	648	596
Dividends	1,057	1,568	1,385	912	693	620
Operating income before depreciation and amortization as % of sales	32.36	30.64	27.98	24.30	24.05	23.47
Pretax return on permanent capital (%)	22.59 **	24.90	22.12	21.77	23.21	24.61
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	21.07	23.17	24.75	14.32	15.24	35.24
FFO/total debt (%)	86.29 **	80.91	72.65	54.43	40.47	124.56
Total debt/capitalization (%)	28.36	30.13	31.93	36.82	42.39	20.13

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
Note: *All are operating leased adjusted ratios*

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