

# BANGKOK DUSIT MEDICAL SERVICES PLC

No. 96/2013

12 November 2013

**Company Rating:** A+

**Outlook:** Stable

**Rating History:**

Date	Company	Issue (Secured/ Unsecured)
10/11/11	A+/Sta	-/A+
17/12/10	A/Pos	-/A
11/02/08	A/Sta	-/A

**Rating Rationale**

TRIS Rating affirms the company and senior debenture ratings of Bangkok Dusit Medical Services PLC (BGH) at "A+". The ratings reflect BGH's leading market position as the largest private hospital operator in Thailand, the enhanced capacity of its facilities, large franchise network, experienced management team and capable physicians, high quality services, and modern equipment. These strengths are partially offset by the large capital expenditures for BGH's expansion in the medium term and the competitive environment in the healthcare service industry. Competition is expected to rise from both local healthcare providers and healthcare providers in other ASEAN countries.

BGH was established in 1969 to operate Bangkok Hospital, a private hospital. The company is the largest private hospital operator in Thailand with a strong network of hospital brands. At present, BGH owns 31 hospitals, under five well-known local hospital brands, plus one international hospital brand. Sixteen hospitals are operated under the Bangkok Hospital brand, four hospitals under the Samitivej Hospital brand, and one hospital under the BNH Hospital brand. BGH also has two other domestic hospital brands: the Phyathai Hospital Group (PYT) and the Paolo Memorial Hospital Group (Paolo). Two international hospitals are run under the Royal International Hospital brand. At the end of October 2013, BGH had a service capacity of 4,684 inpatient beds, including two hospitals it recently purchased: the 150-bed Samitivej Thonburi Hospital (formerly known as Khruangdhon Hospital) and the 158-bed Bangkok Phitsanulok Hospital. BGH's customer base covers the mid- to high-end segments in various locations. Twelve of BGH's hospitals have achieved Joint Commission International (JCI) accreditation.

BGH's competitive edge is derived from its diverse range of services offered, its customer base, and the locations of hospitals. The company has the largest pool of physicians, nurses, and clinical staff in Thailand, as well as the strongest referral network. BGH's focus on tertiary care helps boost revenue and increase the utilization of medical equipment and laboratories. The company will widen its customer base by adding more secondary care hospitals in the medium term. This effort will let BGH reach more middle income patients. Economies of scale, through the pooling of lab services and the centralized purchasing of medicines, medical supplies, and key medical equipment, are expected to benefit the company in terms of cost effectiveness. In addition, the implementation of a cash pooling system reduced the short-term loan requirements for each hospital and lowered the financing cost across the group.

Revenue from hospital operations grew at a compound annual growth rate (CAGR) of 16% from 2007 through 2012. For the first six months of 2013, the company reported total revenues from hospital operations of Bt23,555 million, up by 12% from the same period last year. The rise was driven by growth in patient volume across its network hospitals, price increase, and rises in severity of disease. For the first six months of 2013, outpatient visits per day amounted to 21,257 persons, or a rise of 7% year-on-year (y-o-y). The average daily census (the average number of inpatients per day) rose by 11% y-o-y to 2,941 patients. About 55% of patient revenue came from inpatients; the remainder came from outpatients. Self-pay patients contributed about 70% of total revenue.

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BGH's financial strength is underpinned by its strong operating performance, increasing cash flow, and sufficient liquidity. BGH's financial profile during the past 12 months was near the expectations of TRIS Rating's base-case. The operating margin has been relatively stable at 22%-22.5% during the last three years. The margin slightly dropped to 21% for the first six months of 2013 due to higher expenses for doctors, clinical staff, and administrative expenses. In the medium term, the gross margin is expected to be pressured from a rise in doctors and clinical staff expenses because BGH is preparing its healthcare resources for its new hospitals and for the effects of the upcoming implementation of the ASEAN Economic Community (AEC). However, BGH is expected to achieve economies of scale and have cost-saving from improvements in asset utilization. Funds from operations (FFO) were Bt8,819 million in 2012, climbing from Bt6,772 million in 2011. FFO for the first six months of 2013 held at Bt4,807 million. FFO is expected to continue to grow, reaching Bt10,000-Bt12,000 million annually in 2014 and 2015, driven by the opening of the new hospitals and strong growth in patient volume across its network hospitals.

BGH's total debt at the end of June 2013 was Bt23,328 million, up from Bt16,792 million at the end of 2011. Total debt increased because BGH invested in new hospitals and affiliated companies. However, as BGH has large equity base and carefully manages its capital structure, the debt to capitalization ratio was relatively stable at about 34% during 2011 and 2012. The ratio rose to 37.2% at the end of June 2013. BGH is entering a new investment cycle as it plans to expand its network hospitals from 31 hospitals to 50 hospitals during the next two years. The company also has set an investment budget for the non-hospital segment, e.g., lab services and pharmaceuticals. BGH plans to spend Bt10,000-Bt12,000 million in capital expenditures per annum during 2013-2015. Going forward, BGH's leverage is likely to rise to accommodate its future capital expenditure requirements. However, TRIS Rating expects BGH's strong operating cash flow and good relationships with financial institutions will provide the company with sufficient financial flexibility to meet its financial requirements when it expands.

#### Rating Outlook

The "stable" outlook reflects the expectation that BGH will be able to maintain its leading position in both the domestic and regional private hospital markets and to deliver solid operating performance. BGH is expected to expand its hospital network without a material deterioration in its financial profile. Its EBITDA margin (earnings before interest, tax, depreciation and amortization as a percentage of sales) is expected to maintain at around 20% while its debt to capitalization ratio is expected to stay at around 35%-40%.

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### Bangkok Dusit Medical Services PLC (BGH)

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
BGH143A: Bt1,000 million senior debentures due 2014	A+
BGH146A: Bt1,970 million senior debentures due 2014	A+
BGH153A: Bt2,500 million senior debentures due 2015	A+
BGH166A: Bt1,000 million senior debentures due 2016	A+
BGH233A: Bt4,000 million senior debentures due 2023	A+
<b>Rating Outlook:</b>	Stable

### Financial Statistics and Key Financial Ratios\*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Jun 2013	2012	2011	2010	2009	2008
Sales and services	24,179	45,478	36,234	23,734	21,752	21,348
Gross interest expense	458	849	770	584	641	647
Net income from operations	3,164	6,142	3,907	2,295	1,725	1,662
Funds from operations (FFO)	4,676	8,819	6,772	4,436	4,059	3,893
Capital expenditures	3,862	5,791	3,560	1,192	1,496	1,976
Total assets	73,327	68,461	58,792	32,197	30,359	27,931
Total debts	23,328	19,916	16,792	10,751	12,256	11,440
Shareholders' equities	39,330	38,387	33,417	16,283	14,747	12,988
Operating income before depreciation and amortization as % of sales	21.0	22.5	22.2	22.2	22.2	22.2
Pretax return on permanent capital (%)	20.4 **	16.3	16.5	13.9	11.6	12.8
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	13.0	13.9	11.8	10.1	8.2	8.1
FFO/total debt (%)	39.7 **	44.3	40.3	41.3	33.1	34.0
Total debt/capitalization (%)	37.2	34.2	33.4	39.8	45.4	46.8

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

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