

BANGKOK CHAIN HOSPITAL PLC

No. 36/2019
5 June 2019

CORPORATES

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

Last Review Date: 12/11/18

Company Rating History:

Date	Rating	Outlook/Alert
17/09/09	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Bangkok Chain Hospital PLC (BCH) and the ratings on BCH's outstanding senior unsecured debentures at "A-". At the same time, TRIS Rating also assigns the rating of "A-" on BCH's proposed issue of up to Bt1,200 million in senior unsecured debentures. The company will use the proceeds from the debenture issuance to refinance existing debts and/or to fund its working capital needs and/or for general corporate purposes.

The ratings reflect the company's satisfactory operating performance, its strong positions in two key segments: middle-income self-pay patients and patients who are covered by the government social security program, and its moderate financial leverage. The ratings also take into considerations the regulatory risk and intense competition in the healthcare service industry.

BCH's operating results in 2018 and for the first three months of 2019 were in line with our expectations. Total operating revenue in 2018 reached Bt8,177 million, up 11% from 2017. Revenue grew further in the first quarter of 2019, rising by 14% year-on-year (y-o-y). The rise in revenue in the first three months of 2019 was driven by increased patient volume in the social security coverage (SC) segment, improved performance of the World Medical Hospital (WMC), together with intensity of disease.

At the end of March 2019, the number of SC patients registered at BCH's network of hospitals was about 857,060 patients, up 10% y-o-y. BCH's market share at the end of March 2019 remained strong, holding about 11%, measured by the number of persons registered for the SC scheme in Bangkok and the vicinity. The sizable base of the registered SC patients yields economies of scale and helps sustain the utilization levels of BCH's facilities.

Revenue from patients in the cash segment rose in 2019 as well. Revenue in this segment rose by 16% y-o-y, bolstered by improved performance at WMC, a hospital aiming to service high income self-pay and international patients. During 2019-2021, we forecast BCH's total revenue to grow at an average annual growth rate of 8%.

BCH's operating margin is solid, supported by its cost control efforts and a higher utilization rate at WMC. The operating margin ranged from 25%-28% over the last four years. For the first three months of 2019, the operating margin was 25.7%, compared with 27.6% in 2018. The slight decrease was attributable to a rise in operating costs and higher selling, general and administrative expenses due to the opening of Kasemrad Hospital Ramkhamhaeng in the fourth quarter of 2018. Our forecast assumes the operating margin will hold at 26%-27% during 2019-2021. A continued focus on cost control will keep profitability strong in the longer term.

Leverage has been rising. As of March 2019, BCH's reported total debt was Bt4,885 million, up from Bt4,700 million at the end of 2018. TRIS Rating expects BCH's total debt will stay elevated following its capital spending plans of nearly Bt4,000 million in total during 2019-2021, to build new hospitals and renovate facilities. TRIS Rating forecasts the leverage to increase during 2019 and 2020, then decline in 2021. During the next three years, the ratio of funds from operations (FFO) to total debt will range from 33% to 48%. Despite the ongoing expansion, the debt to capitalization ratio is forecast to stay below 50%.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

BCH's liquidity is adequate. Sources of funds should be sufficient to cover uses of funds over the next 12-24 months. At the end of March 2019, cash on hand and short-term investments were Bt755 million. FFO is forecast at around Bt1,700-Bt2,000 million per year during 2019-2021. Uses of funds over the next 24 months will include capital expenditures of about Bt1,000-Bt2,000 million per annum, plus scheduled debt repayments and short-term debts due of Bt1,452 million. Dividend payments are forecast at Bt400-Bt500 million per annum.

RATING OUTLOOK

The "stable" outlook is based on our expectation that BCH will maintain its strong market position in the middle-income self-pay patient segment and the SC patient segment. WMC's operating results are expected to keep improving. We also expect that BCH will continue to employ prudent financial policies for any new debt-funded investments.

RATING SENSITIVITIES

BCH's ratings could be upgraded should the revenue base rise to Bt12,000-Bt15,000 million per annum and the financial profile hold at current levels. In contrast, the rating downside case may occur if cash flow protection drops significantly from the current level, due to aggressive debt-funded investments or a drop in operating results.

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Bangkok Chain Hospital PLC (BCH)

Company Rating:	A-
Issue Ratings:	
BCH211A: Bt1,500 million senior unsecured debentures due within 2021	A-
BCH22DA: Bt1,000 million senior unsecured debentures due within 2022	A-
Up to Bt1,200 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Stable

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