

BUY (Unchanged)**TP: Bt 4.80**

(From: Bt 4.10)

Change in Numbers

Upside : 12.1%

29 JULY 2021

Chularat Hospital Pcl (CHG TB)

Another COVID hedge

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CHG has raised the capacity of its COVID services to respond to the sharp jump in cases. We boost our earnings by 6-19% in 2021-23F and lift our TP to Bt4.8. Despite being our No.2 COVID hedge in the healthcare sector, CHG remains our top sector pick given our expectation of a strong performance beyond the COVID period.

Raising our earnings and TP

We raise our earnings for CHG by 19%, 15% and 6% in 2021-23F to reflect the increase in capacity of its COVID services. We lift our DCF-based 12-month TP (2022F base year) to Bt4.8 from Bt4.1. We maintain BUY on CHG as the No.2 COVID hedge in the sector while it's our top sector pick on our expectation of strong operations beyond the COVID period. Despite a high base of 2021F earnings from COVID services at 27% of profit, we expect CHG to be able to maintain its high earnings base into 2023F with earnings support from cash patients growing from a low base in 2021F, revenues rising from managed-care schemes and heart-center management, and reduced losses from new hospitals. Valuation wise, at 33.2x PE in 2022F, CHG is still trading far below its five-year pre-COVID average PE of 41.3x.

Second-highest COVID bed capacity

From end June, CHG raised its COVID bed capacity for hospitals by 57% to 550 beds and hospitals-cum-hotels (hospitels) by 60% to 4,000 beds. Its swab test capacity is still at c. 3,000 cases/day. See Exhibit 1 for a COVID capacity sector comparison. CHG continues to have the sector's second-largest COVID profit exposure at 27% of total profit in 2021F after Bangkok Chain Hospital's (BCH TB, BUY, Bt26) 64%. We project CHG's COVID-related profit at Bt379m, Bt224m and Bt93m in 2021-23F vs. c. Bt35m in 2020. Our estimates for vaccine profits are Bt43m, Bt66m and Bt42m in 2021-23F. CHG has a 5% share of Moderna vaccines from the Government Pharmaceutical Organization's procurement of 3.9m doses this year.

Drivers beyond COVID

We expect CHG to be able to maintain its high 2021F earnings base (+58% from 2020) into 2023F. Key earnings drivers that we expect to make up for the falling COVID-related gains in 2022-23F are 8% p.a. growth in non-COVID cash patients from the low 2021F base (-16% from 2019), rising revenue from managed-care schemes and excellence center management, and falling losses at its new hospitals and cancer center. We project its non-COVID earnings to grow by 19% in 2022F and 10% in 2023F.

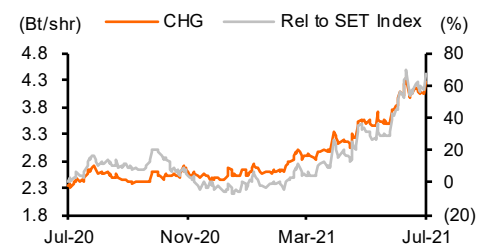
Reduced losses from new projects

We estimate the three new hospitals and cancer center to make a Bt31m loss in 2021F before turning a profit of Bt3m and Bt36m in 2022-23F. Chularat 304 International and Rampant Chachoengsao, opened in 2018, continue to post lower losses with higher utilization, which should offset losses from two new projects, a cancer center due to open in 2022 and the 100-bed Chularat Mae Sot International due to open in 2023. We project Bt13m and Bt28m losses in 2022-23F from the last two projects.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	5,433	7,198	7,197	7,311
Net profit	877	1,383	1,419	1,412
Consensus NP	—	1,191	1,229	1,285
Diff frm cons (%)	—	16.1	15.5	9.9
Norm profit	877	1,383	1,419	1,412
Prev. Norm profit	—	1,167	1,232	1,328
Chg frm prev (%)	—	18.5	15.1	6.3
Norm EPS (Bt)	0.1	0.1	0.1	0.1
Norm EPS grw (%)	24.3	57.8	2.6	(0.5)
Norm PE (x)	53.7	34.0	33.2	33.3
EV/EBITDA (x)	33.0	26.2	25.8	24.3
P/BV (x)	11.7	10.1	9.3	8.5
Div yield (%)	1.2	2.1	2.1	2.1
ROE (%)	22.7	31.9	29.1	26.7
Net D/E (%)	12.7	5.1	(1.5)	(12.1)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 29-Jul-21 (Bt)	4.28
Market Cap (US\$ m)	1,432.1
Listed Shares (m shares)	11,000.0
Free Float (%)	42.8
Avg Daily Turnover (US\$ m)	16.2
12M Price H/L (Bt)	4.34/2.32
Sector	Health Care
Major Shareholder	Plussind Family 23.79%

Sources: Bloomberg, Company data, Thanachart estimates



COVID-19 capacity expansion

CHG has raised capacity to serve rising COVID treatment demand

The third wave of COVID-19 has emerged in Thailand and also in the east of Bangkok. Chularat Hospital Pcl (CHG) has a strong service network in that area with nine hospitals located in Samut Prakan, Chon Buri, Chachoengsao, Rayong and Prachin Buri provinces. CHG has raised COVID capacity to serve rising treatment demand.

CHG has expanded its COVID bed capacity in hospitals to around 550 beds and hospital-cum-hotel (hospitels) to 4,000 beds presently, up 57% and 60%, respectively from end-June 2021. The utilization rate is almost full. Meanwhile, it has maintained its swab test capacity at around 3,000 cases/day vs. tests per day of 800-1,000 on average.

For vaccines, CHG has a 5% share of the Moderna vaccines from the Government Pharmaceutical Organization's procurement of 3.9m doses for private hospitals in 2021. Our estimates for vaccine profits are Bt43m, Bt66m and Bt42m in 2021-23F.

We project CHG's COVID-related profit of Bt379m, Bt224m and Bt93m in 2021-23F vs. c. Bt35m in 2020.

Ex 1: COVID-19 Capacity*

Hospitals	Active beds/ registered beds in hospitals	COVID beds in hospitals	Hospital & Field hospital beds	Lab test capacity (cases/day)
BCH	2,144	1,600	11,000-12,000	16,000
BDMS	6,062	2,400	700-800	7,000
BH	580	65	–	450
CHG	749	550	4,000	3,000
LPH	190	55	500	300
PR9	166	50-60	150	n.a.
RJH	292	210	260	1,000
RPH	171	27	100	300-400
THG	812	100-150	2,600	1,000

Sources: Company data, Thanachart compilation

Note: * As of end-July 2021

Strong operations after COVID period

Strong non-COVID operation earnings after the COVID ends

We expect CHG to be able to maintain its high earnings base in 2021F into 2023F, despite its 2021F earnings growing by 58% from 2020. Key earnings drivers that we expect to offset the declining COVID-related gains in 2022-23F are as follows:

First, we estimate CHG's non-COVID cash patients to increase by 9% and 7% in 2022-23F, respectively, because of the low base effect in 2021F. We estimate CHG's cash patients in 2021F to decline by 16% from the 2019 level.

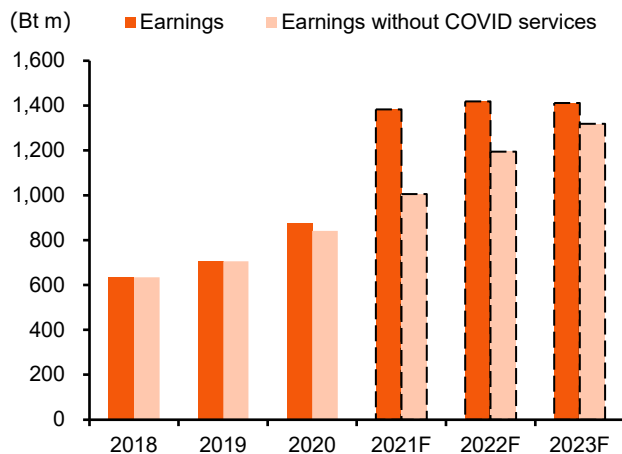
Second, we estimate revenue from managed-care schemes including the Social Security Scheme (SSS) and heart and stroke patient referrals from the Universal Coverage Scheme (UCS) to grow by 7% and 6% in 2022-23F, respectively.

Third, with CHG signing two contracts with Sirindhorn Hospital and Samutprakarn Hospital to manage their heart centers, scheduled for launch in 3Q21 and 4Q21, respectively, we estimate revenue contribution from these two contracts at Bt58m, Bt243m and Bt243m in 2021-23F.

Lastly, we estimate loss contributions from its new hospitals and cancer center to decline.

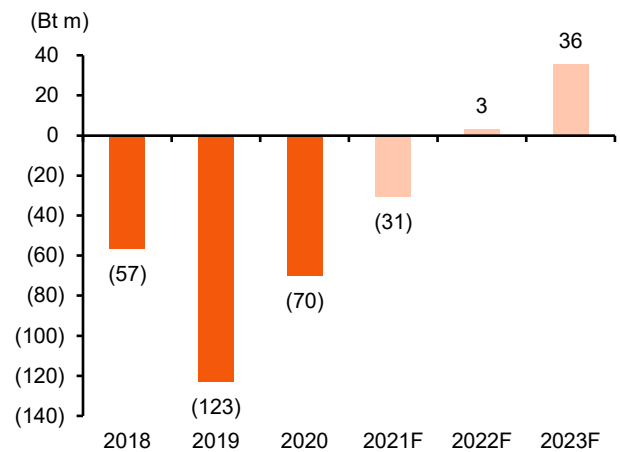
With all of the above-mentioned non-COVID drivers, we estimate CHG's non-COVID earnings to grow by 19% in 2022F and 10% in 2023F, helping to support CHG's strong earnings base after the COVID ends.

Ex 2: CHG's Earnings With & Without COVID Services



Sources: Company data, Thanachart estimates

Ex 3: CHG's Earnings From New Hospitals & Cancer Center



Sources: Company data, Thanachart estimates

Boosting our earnings and TP

We raise our earnings by 6-19% in 2021-23F

We raise our earnings estimates for CHG by 19%, 15% and 6% in 2021-23F to reflect higher-than-expected revenue from COVID-related services on the back of the increase in capacity of its COVID services and the severe COVID-19 outbreak in Thailand. We lift our DCF-based 12-month TP, using a 2022F base year, to Bt4.8/share from Bt4.1.

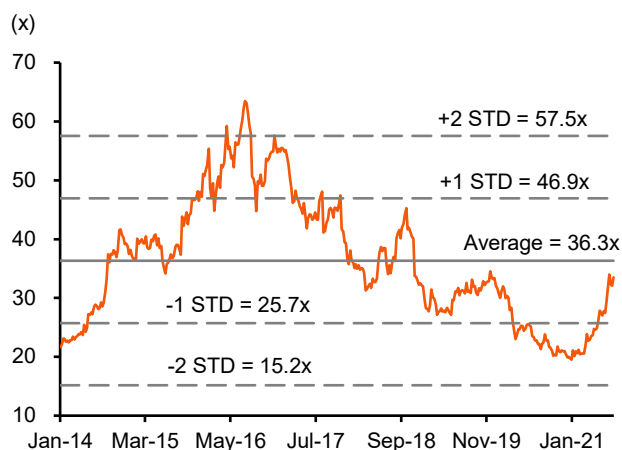
Ex 4: Changes In Our Key Assumptions And Earnings Revisions

	2021F	2022F	2023F
Revenue from COVID-related services (Bt m)			
- New	1,769	892	300
- Old	977	172	67
- Change (%)	81.2	417.4	349.0
Normalized profit (Bt m)			
- New	1,383	1,419	1,412
- Old	1,167	1,232	1,328
- Change (%)	18.5	15.1	6.3

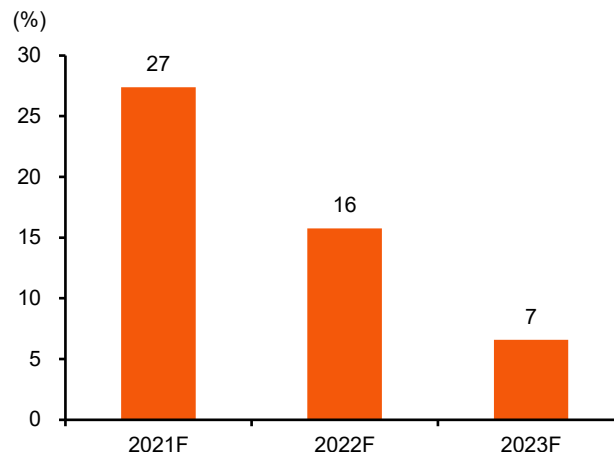
Source: Thanachart estimates

Our top sector pick

We maintain our BUY on CHG as the second-best COVID hedge in the sector while it is our top sector pick on our expectation of a strong performance beyond the COVID era. Despite its high 2021F earnings base from COVID services at 27% of profit, we expect CHG to be able to sustain this strong base into 2023F with earnings supported by cash patients growing from the low base in 2021F, revenues rising from managed-care schemes and heart-center management and losses from new hospitals falling. Valuation wise, at 33.2x PE in 2022F, CHG is still trading far below its five-year pre-COVID average PE of 41.3x.

Ex 5: CHG's Valuation Is Inexpensive, In Our View

Sources: Company data, Bloomberg, Thanachart estimates

Ex 6: % Earnings Contribution From COVID Services

Source: Thanachart estimates

Ex 7: 12-month DCF-based TP Calculation, Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA excl. depre from right of use	1,807	1,897	2,091	2,284	2,491	2,713	2,951	3,193	3,443	3,705	3,988	—
Free cash flow	1,382	1,664	1,580	1,752	1,899	2,078	2,269	2,465	2,667	2,877	3,104	72,608
PV of free cash flow	1,379	1,484	1,331	1,369	1,395	1,435	1,474	1,505	1,531	1,553	1,575	36,836
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.6											
WACC (%)	5.9											
Terminal growth (%)	2.0											
Enterprise value	52,867											
Net debt (end-2021F)	245											
Minority interest	166											
Equity value	52,456											
# of shares (m)	11,000											
Equity value / share (Bt)	4.80											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 8: Valuation Comparison With Regional Peers

Name	BBG code	Country	Market Cap (US\$ m)	EPS growth		PE		P/BV		EV/EBITDA		Div yield	
				21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
Ramsay Healthcare	RHC AU	Australia	10,879	20.6	27.7	31.0	24.3	3.5	3.4	11.1	10.3	1.7	2.1
Guangzhou Pharmaceutical	874 HK	Hong Kong	7,225	18.3	8.1	9.9	9.2	1.2	1.1	7.8	7.9	2.1	2.2
Lijun Int'l Pharmaceutical	2005 HK	Hong Kong	1,970	34.7	22.4	12.9	10.5	2.4	2.1	9.4	7.9	3.0	3.6
Apollo Hospitals Enterprise	APHS IN	India	7,808	na	740.1	675.6	80.4	13.8	11.0	51.8	29.6	0.1	0.2
Fortis Healthcare India	FORH IN	India	2,557	na	na	na	56.0	2.9	2.8	49.6	23.7	0.0	0.0
KPJ Healthcare	KPJ MK	Malaysia	1,082	(10.3)	53.8	41.2	26.8	2.1	1.9	13.7	11.7	1.3	1.9
IHH Healthcare Bhd	IHH MK	Malaysia	11,993	98.4	22.4	46.3	37.8	2.2	2.1	17.8	15.9	0.8	0.9
Ryman	RYM NZ	New Zealand	4,529	(7.6)	30.1	27.8	21.4	2.6	2.1	31.9	24.6	1.8	2.3
Raffles Medical Group	RFMD SP	Singapore	1,931	65.2	5.3	36.8	35.0	2.8	2.7	20.3	19.0	2.0	1.7
Bangkok Chain Hospital *	BCH TB	Thailand	1,972	150.3	(32.9)	21.1	31.4	7.3	6.8	14.7	22.4	2.6	1.8
Bangkok Dusit Medical *	BDMS TB	Thailand	11,022	15.6	29.6	51.9	40.0	4.1	3.9	28.0	22.9	1.1	1.4
Bumrungrad Hospital *	BH TB	Thailand	2,949	0.5	57.9	80.4	50.9	5.4	5.3	35.9	26.3	1.2	2.0
Chularat Hospital *	CHG TB	Thailand	1,432	57.8	2.6	34.0	33.2	10.1	9.3	26.2	25.8	2.1	2.1
Ladprao General Hospital *	LPH TB	Thailand	144	49.6	(13.0)	21.2	24.4	3.0	3.0	11.8	12.6	3.8	3.3
Praram 9 Hospital *	PR9 TB	Thailand	270	19.1	22.1	36.9	30.2	2.1	2.0	14.9	12.4	1.2	1.5
Rajthanee Hospital *	RJH TB	Thailand	340	27.2	(1.3)	23.7	24.0	6.9	6.5	15.7	15.8	3.4	3.3
Ratchaphruek Hospital *	RPH TB	Thailand	112	16.0	19.6	33.9	28.3	2.7	2.6	17.3	15.4	2.4	2.8
Thonburi Healthcare Group*	THG TB	Thailand	801	na	123.4	170.3	76.3	3.4	3.3	27.1	22.9	0.4	0.9
Average				37.0	65.8	79.7	35.6	4.4	4.0	22.5	18.2	1.7	1.9

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

Based on 29 July 2021 closing prices

COMPANY DESCRIPTION

Chularat Hospital Pcl (CHG) operates a private hospital chain under the “Chularat” brand in the eastern region of Thailand, particularly in Samut Prakan and Chachoengsao provinces. The company was established in 1986. Presently, CHG has nine main hospitals and four clinics in its portfolio, providing medical treatment to cash and Social Security (SS) patients. Chularat Group offers expertise in hand surgery and microsurgery, NICU, heart surgery and stroke treatment.

Source: Thanachart

THANACHART'S SWOT ANALYSIS

S — Strength

- One of the big hospital chains in Thailand with significant experience and a reputable brand in managed-care scheme.
- Hospitals in CHG's portfolio are in prime locations (communities, factories and industrial estates).
- Owns a nursing assistant school that supplies professional nursing assistants for the group.

O — Opportunity

- Limited public healthcare supply in Thailand.
- Capacity expansion to support rising healthcare demand in the future.
- Ageing society mega trend.
- Rising patient flows from neighbouring countries.
- COVID-19's rising infections

CONSENSUS COMPARISON

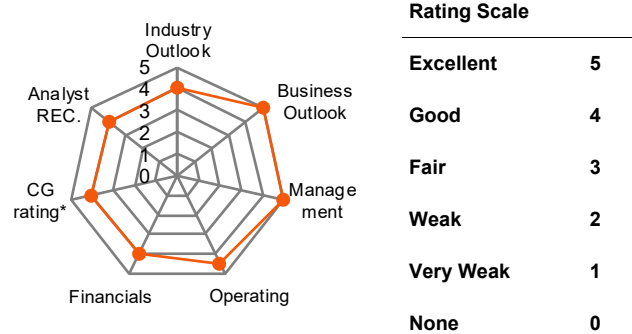
	Consensus	Thanachart	Diff
Target price (Bt)	4.25	4.80	13%
Net profit 21F (Bt m)	1,191	1,383	16%
Net profit 22F (Bt m)	1,229	1,419	15%
Consensus REC	BUY: 14	HOLD: 5	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings and TP are above the Bloomberg consensus numbers, which we attribute to us having a more bullish view on CHG's income contribution from COVID and non-COVID services.

Sources: Bloomberg consensus, Thanachart estimates

COMPANY RATING



Source: Thanachart; *CG Rating

W — Weakness

- Limited patient-base diversification as CHG still mainly focuses on the low- to mid-tier and managed-care markets.

T — Threat

- Growing importance of franchise names and big players such as Bangkok Dusit Medical Services (BDMS TB, Bt22.80, BUY), which have entered the mid-market segment.
- Regulatory risk.

RISKS TO OUR INVESTMENT CASE

- If CHG's strategy of boosting revenue from the cash-patient business turns out to be worse than we expect, this would present the key downside risk to our earnings forecasts.
- If the Adjusted Relative Weight (RW) under the SSS or Universal Coverage schemes falls, this could pose a secondary downside risk to our earnings forecasts.
- Given CHG's capacity expansion plans over the next few years, its new buildings may turn profitable more slowly than we currently expect, representing a third downside risk.
- If there is more competition from existing private-healthcare operators and/or newcomers to the healthcare market in Thailand, this would represent a fourth downside risk.

Source: Thanachart

INCOME STATEMENT

Strong, sustainable earnings outlook in 2021-23F

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	5,166	5,433	7,198	7,197	7,311
Cost of sales	3,629	3,685	4,966	4,947	4,972
Gross profit	1,536	1,748	2,232	2,250	2,339
% gross margin	29.7%	32.2%	31.0%	31.3%	32.0%
Selling & administration expenses	672	673	796	812	829
Operating profit	864	1,075	1,436	1,438	1,510
% operating margin	16.7%	19.8%	20.0%	20.0%	20.7%
Depreciation & amortization	343	370	372	383	399
EBITDA	1,207	1,445	1,808	1,821	1,909
% EBITDA margin	23.4%	26.6%	25.1%	25.3%	26.1%
Non-operating income	25	32	313	366	276
Non-operating expenses	0	0	0	0	0
Interest expense	(40)	(36)	(24)	(15)	(7)
Pre-tax profit	849	1,071	1,726	1,789	1,779
Income tax	184	219	345	358	347
After-tax profit	665	852	1,381	1,431	1,432
% net margin	12.9%	15.7%	19.2%	19.9%	19.6%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	41	24	3	(13)	(20)
Extraordinary items	0	0	0	0	0
NET PROFIT	705	877	1,383	1,419	1,412
Normalized profit	705	877	1,383	1,419	1,412
EPS (Bt)	0.1	0.1	0.1	0.1	0.1
Normalized EPS (Bt)	0.1	0.1	0.1	0.1	0.1

BALANCE SHEET

New cancer center and hospital due to being operating in 2022-23

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	1,764	1,763	2,007	2,006	2,322
Cash & cash equivalent	521	580	432	432	732
Account receivables	1,058	983	1,302	1,301	1,322
Inventories	161	179	245	244	238
Others	25	22	29	29	29
Investments & loans	0	0	0	0	0
Net fixed assets	4,335	4,167	4,311	4,442	4,256
Other assets	167	271	326	316	313
Total assets	6,266	6,201	6,644	6,765	6,890
LIABILITIES:					
Current liabilities:	1,682	1,429	1,376	1,170	970
Account payables	607	570	762	759	763
Bank overdraft & ST loans	820	570	352	183	21
Current LT debt	146	136	81	42	5
Others current liabilities	109	153	181	186	182
Total LT debt	573	407	244	127	14
Others LT liabilities	115	171	209	202	199
Total liabilities	2,370	2,008	1,829	1,499	1,183
Minority interest	193	169	166	179	199
Preferreds shares	0	0	0	0	0
Paid-up capital	1,100	1,100	1,100	1,100	1,100
Share premium	1,146	1,146	1,146	1,146	1,146
Warrants	0	0	0	0	0
Surplus	0	0	0	0	0
Retained earnings	1,456	1,778	2,402	2,841	3,262
Shareholders' equity	3,702	4,024	4,649	5,087	5,508
Liabilities & equity	6,266	6,201	6,644	6,765	6,890

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

Strong and sustainable cash inflow stream

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	849	1,071	1,726	1,789	1,779
Tax paid	(158)	(193)	(329)	(350)	(349)
Depreciation & amortization	343	370	372	383	399
Chg In working capital	(103)	20	(193)	(2)	(11)
Chg In other CA & CL / minorities	37	20	3	(4)	(2)
Cash flow from operations	968	1,288	1,579	1,816	1,816
Capex	(733)	(186)	(500)	(500)	(200)
Right of use	0	(87)	(5)	(5)	(5)
ST loans & investments	0	0	0	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	45	23	(26)	(6)	(7)
Cash flow from investments	(687)	(250)	(531)	(511)	(212)
Debt financing	312	(426)	(437)	(324)	(313)
Capital increase	0	0	0	0	0
Dividends paid	(550)	(550)	(759)	(981)	(991)
Warrants & other surplus	(16)	(5)	0	0	0
Cash flow from financing	(254)	(980)	(1,196)	(1,305)	(1,304)
Free cash flow	235	1,103	1,079	1,316	1,616

VALUATION

Inexpensive valuation, in our view

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	66.8	53.7	34.0	33.2	33.3
Normalized PE - at target price (x)	74.9	60.2	38.2	37.2	37.4
PE (x)	66.8	53.7	34.0	33.2	33.3
PE - at target price (x)	74.9	60.2	38.2	37.2	37.4
EV/EBITDA (x)	39.8	33.0	26.2	25.8	24.3
EV/EBITDA - at target price (x)	44.6	36.9	29.3	29.0	27.3
P/BV (x)	12.7	11.7	10.1	9.3	8.5
P/BV - at target price (x)	14.3	13.1	11.4	10.4	9.6
P/CFO (x)	48.6	36.5	29.8	25.9	25.9
Price/sales (x)	9.1	8.7	6.5	6.5	6.4
Dividend yield (%)	1.2	1.2	2.1	2.1	2.1
FCF Yield (%)	0.5	2.3	2.3	2.8	3.4
(Bt)					
Normalized EPS	0.1	0.1	0.1	0.1	0.1
EPS	0.1	0.1	0.1	0.1	0.1
DPS	0.1	0.1	0.1	0.1	0.1
BV/share	0.3	0.4	0.4	0.5	0.5
CFO/share	0.1	0.1	0.1	0.2	0.2
FCF/share	0.0	0.1	0.1	0.1	0.1

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

*Strong-profitability
company, based on our
forecasts*

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	17.2	5.2	32.5	(0.0)	1.6
Net profit (%)	11.3	24.3	57.8	2.6	(0.5)
EPS (%)	11.3	24.3	57.8	2.6	(0.5)
Normalized profit (%)	11.3	24.3	57.8	2.6	(0.5)
Normalized EPS (%)	11.3	24.3	57.8	2.6	(0.5)
Dividend payout ratio (%)	78.0	62.7	70.0	70.0	70.0
Operating performance					
Gross margin (%)	29.7	32.2	31.0	31.3	32.0
Operating margin (%)	16.7	19.8	20.0	20.0	20.7
EBITDA margin (%)	23.4	26.6	25.1	25.3	26.1
Net margin (%)	12.9	15.7	19.2	19.9	19.6
D/E (incl. minor) (x)	0.4	0.3	0.1	0.1	0.0
Net D/E (incl. minor) (x)	0.3	0.1	0.1	(0.0)	(0.1)
Interest coverage - EBIT (x)	21.4	30.2	60.7	96.5	219.6
Interest coverage - EBITDA (x)	29.8	40.5	76.4	122.2	277.6
ROA - using norm profit (%)	11.8	14.1	21.5	21.2	20.7
ROE - using norm profit (%)	19.4	22.7	31.9	29.1	26.7
DuPont					
ROE - using after tax profit (%)	18.3	22.1	31.8	29.4	27.0
- asset turnover (x)	0.9	0.9	1.1	1.1	1.1
- operating margin (%)	17.2	20.4	24.3	25.1	24.4
- leverage (x)	1.6	1.6	1.5	1.4	1.3
- interest burden (%)	95.5	96.8	98.6	99.2	99.6
- tax burden (%)	78.3	79.6	80.0	80.0	80.5
WACC (%)	5.9	5.9	5.9	5.9	5.9
ROIC (%)	15.7	18.1	25.2	23.5	24.3
NOPAT (Bt m)	677	856	1,149	1,150	1,216
invested capital (Bt m)	4,720	4,558	4,893	5,007	4,815

Sources: Company data, Thanachart estimates

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