HOLD (Unchanged)

Change in Numbers

TP: Bt 22.60 (From: Bt 17.70)

Upside : 9.2%

21 JUNE 2021

Small Cap Research

Bangkok Chain Hospital (BCH TB)

Shares up on 2021F profit spike

The stronger and longer COVID third-wave impact makes us raise our earnings by 5-37% over 2021-23F. Though we expect BCH's earnings to spike in 2021F, its 32.7x PE in 2022F vs. a 30% drop in earnings in 2022F after COVID subsides leads us to maintain our HOLD rating on BCH with a higher, rolled-over TP of Bt22.6.

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Trading at fair value; HOLD

We raise our earnings for BCH by 37%, 8.5% and 5% for 2021-23F to reflect stronger-than-expected revenue from COVID-related services. After our earnings hikes and base-year rollover to 2022F, we boost our DCF-based 12-month TP to Bt22.6 from Bt17.7. We estimate robust EPS growth of 83% in 2021F due to COVID but for this to turn to negative 30% in 2022F before growing by 9% in 2023F after COVID subsides. BCH's PE of 32.7x in 2022F is therefore at fair value, in our view. However, with strong y-y earnings growth momentum over the next few quarters, we still maintain our HOLD rating on BCH.

COVID-19 driving 2021F earnings

BCH's swab tests jumped from 611 people/day in 4Q20 to 1,400 in 1Q21 due to the COVID second wave. BCH expects tests on 5,500 people/day in 2Q21F during the third wave. IPD beds allocated to COVID patients of 900-1,000 (vs. its licensed beds of 2,029) are fully occupied. BCH has also been cooperating with hotels to provide the so-called hospitel service with 3,000 beds. Its current utilization rate is 90%. We estimate BCH's revenue from COVID tests, hospitel, Alternative State Quarantine (ASQ) and vaccinations at Bt4.7bn in 2021F (making up 34% of 2021F), before declining to Bt789m and Bt331m in 2022F-23F. Meanwhile, revenue from COVID admissions at hospitals looks sufficient to offset the hit from weak OPD and IPD cash patients suffering general illnesses.

Operations set to adjust back in 2022-23F

We estimate BCH's operations to improve though not yet get back to normal in 2022F. We don't expect rising revenue from cash and Social Security Scheme patients for general illnesses to offset falling revenues from COVID-related services and COVID admissions next year. We estimate its earnings to decline by 30% in 2022F before growing by 9% in 2023F. Losses from three new hospitals (Kasemrad International Hospital [KIH] Aranyaprathet, Kasemrad Hospital Prachinburi and KIH Vientiane in Laos) will likely put pressure back on earnings after COVID subsides. Note that KIH's opening has been delayed a quarter to 3Q21.

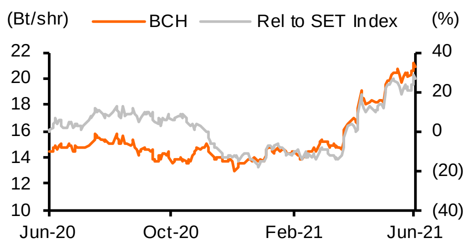
Reaching its peak in 2Q21F

We estimate BCH to post a spike in earnings growth in 2Q21F, more than doubling y-y and q-q from Bt279m in 2Q20 and Bt324m in 1Q21. We expect this to be driven by strong revenue from COVID-related services such as COVID tests, its hospitel service, ASQ and COVID IPD admissions at its hospitals. We expect BCH's results in 2Q21F to not only set a quarterly record-high but also be the most profitable quarter for the next three years.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	8,928	13,857	10,940	11,432
Net profit	1,229	2,249	1,578	1,715
Consensus NP	—	1,509	1,513	1,697
Diff frm cons (%)	—	*49.0*	*4.3*	*1.1*
Norm profit	1,229	2,249	1,578	1,715
Prev. Norm profit	—	1,640	1,454	1,629
Chg frm prev (%)	—	*37.1*	*8.5*	*5.3*
Norm EPS (Bt)	0.5	0.9	0.6	0.7
Norm EPS grw (%)	8.3	83.0	(29.9)	8.7
Norm PE (x)	42.0	22.9	32.7	30.1
EV/EBITDA (x)	22.9	15.0	18.4	17.1
P/BV (x)	7.5	6.3	5.9	5.4
Div yield (%)	1.1	2.4	1.7	2.0
ROE (%)	18.7	29.8	18.6	18.8
Net D/E (%)	82.4	58.0	34.1	17.6

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 21-Jun-21 (Bt)	20.70
Market Cap (US$ m)	1,641.4
Listed Shares (m shares)	2,493.7
Free Float (%)	50.0
Avg Daily Turnover (US$ m)	17.4
12M Price H/L (Bt)	21.20/13.00
Sector	Health Care
Major Shareholder	Harnphanich Family 50%

Sources: Bloomberg, Company data, Thanachart estimates

Thanachart Securities

Ex 1: Changes In Key Assumptions And Earnings Revisions

	2021F	2022F	2023F
Revenue from COVID-related services (Bt m) *			
- New	4,722	789	331
- Old	2,604	270	55
- Change (%)	*81.4*	*192.4*	*504.9*
BCH's normalized profit (Bt m)			
- New	2,249	1,578	1,715
- Old	1,640	1,454	1,629
- Change (%)	*37.1*	*8.5*	*5.3*

Source: Thanachart estimates

Note: * Including COVID-19 tests, hospitel, ASQ and COVID-19 vaccination services

Ex 2: 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	2,980	3,129	3,370	3,615	3,839	4,068	4,304	4,549	4,807	5,112	5,436	—
Free cash flow	3,015	2,506	2,472	2,655	2,823	2,990	3,158	3,329	3,508	3,729	3,919	81,786
PV of free cash flow	3,007	2,233	2,080	2,071	2,070	2,060	2,044	2,025	2,006	1,916	1,883	39,296
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.6											
WACC (%)	5.9											
Terminal growth (%)	2.0											
Enterprise value	**62,691**											
Net debt (end-2021F)	5,303											
Minority interest	914											
Equity value	56,474											
# of shares (m)	2,494											
Equity value/share (Bt)	**22.6**											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 3: Valuation Comparison With Regional Peers

Name	BBG code	Country	Market Cap (US$ m)	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (x)	P/BV 22F (x)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div yield 21F (%)	Div yield 22F (%)
Ramsay Healthcare	RHC AU	Australia	11,134	21.4	27.9	31.1	24.3	3.6	3.4	11.1	10.0	1.8	2.2
Guangzhou Pharmaceutical	874 HK	Hong Kong	7,017	16.5	8.7	10.1	9.3	1.2	1.1	8.3	7.6	1.5	1.6
Lijun Int'l Pharmaceutical	2005 HK	Hong Kong	1,898	36.4	19.4	12.3	10.3	2.3	2.0	9.0	7.7	3.1	3.8
Apollo Hospitals Enterprise	APHS IN	India	6,283	na	705.5	541.0	67.2	11.0	9.6	43.3	24.8	0.2	0.3
Fortis Healthcare India	FORH IN	India	2,396	na	na	na	56.0	2.7	2.7	46.7	20.5	0.0	0.0
KPJ Healthcare	KPJ MK	Malaysia	1,054	(3.4)	50.0	36.4	24.3	2.0	1.9	12.9	11.2	1.6	2.2
IHH Healthcare Bhd	IHH MK	Malaysia	12,195	90.5	25.8	48.0	38.1	2.2	2.1	17.8	16.0	0.7	0.9
Ryman	RYM NZ	New Zealand	4,527	(7.6)	29.5	28.0	21.6	2.6	2.2	32.0	24.7	1.8	2.3
Raffles Medical Group	RFMD SP	Singapore	1,583	43.5	12.1	34.5	30.8	2.3	2.2	18.1	16.5	2.2	2.0
Bangkok Chain Hospital *	BCH TB	Thailand	1,641	83.0	(29.9)	22.9	32.7	6.3	5.9	15.0	18.4	2.4	1.7
Bangkok Dusit Medical *	BDMS TB	Thailand	11,485	15.6	29.6	51.6	39.9	4.1	3.9	27.8	22.8	1.1	1.4
Bumrungrad Hospital *	BH TB	Thailand	3,301	0.5	57.9	86.0	54.5	5.8	5.7	38.5	28.2	1.2	1.8
Chularat Hospital *	CHG TB	Thailand	1,217	33.1	5.6	32.8	31.1	8.5	7.8	24.9	23.7	2.1	2.3
Ladprao General Hospital *	LPH TB	Thailand	124	12.5	5.7	23.3	22.0	2.5	2.5	12.5	12.2	3.4	3.6
Praram 9 Hospital *	PR9 TB	Thailand	255	19.1	22.1	33.3	27.3	1.9	1.8	13.2	11.0	1.4	1.6
Rajthanee Hospital *	RJH TB	Thailand	301	15.3	4.3	22.1	21.2	5.9	5.6	15.5	15.3	3.6	3.8
Ratchaphruek Hospital *	RPH TB	Thailand	89	16.0	19.6	25.6	21.4	2.0	2.0	13.1	11.6	3.1	3.7
Thonburi Healthcare Group*	THG TB	Thailand	689	na	123.4	140.1	62.7	2.8	2.7	23.2	19.6	0.5	1.1
Average				**26.2**	**65.7**	**69.4**	**33.0**	**3.9**	**3.6**	**21.3**	**16.8**	**1.8**	**2.0**

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

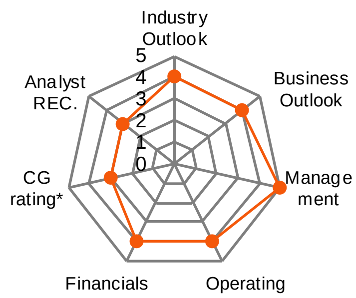
Based on 21 June 2021 closing prices

COMPANY DESCRIPTION

Bangkok Chain Hospital (BCH) runs 13 hospitals, located in Bangkok and upcountry, with a total number of licensed beds of 2,029 at end 2020. Its patient portfolio is divided into 1) cash or self-pay (including Civil Servants); and 2) patients under the Social Security Scheme. The company held an IPO and was listed on the Stock Exchange of Thailand (SET) at the beginning of 2004.

Source: Thanachart

COMPANY RATING



Rating Scale	
Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; * CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Management has substantial experience in the hospital business, particularly in the mid-tier and managed-care markets.
- Revenue is diversified.

W — Weakness

- BCH has long been recognized as the largest managed-care private hospital, which could be a barrier to expanding into new client segments.

O — Opportunity

- Limited public healthcare supply in Thailand.
- Capacity expansion to support rising healthcare demand in the future.
- Aging society mega trend.
- Rising patient flows from neighbouring countries.

T — Threat

- Growing importance of franchise names and big players such as BDMS, which have entered the mid-market segment.
- Slow economy.
- Regulatory risk.
- Covid-19 pandemic.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	22.03	22.60	3%
Net profit 21F (Bt m)	1,509	2,249	49%
Net profit 22F (Bt m)	1,513	1,578	4%
Consensus REC	**BUY: 15**	**HOLD: 5**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021F earnings are 49% above the Bloomberg consensus forecast, which we attribute to us having a more bullish view on benefits from COVID-related services in the short term.
- However, our TP is largely in line with the Street's because we estimate BCH's operations to return to a normal level after COVID-19 subsides.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- The key upside/downside risk to our call would be if BCH's strategy of boosting revenue from the cash-patient business were to work better/worse than our current expectations.
- A secondary upside/downside risk would be if BCH's registered patients under the SSS are higher/lower than our current assumptions.
- Another risk would be if the Social Security Office decreases its reimbursement rate in the future.
- If the earnings from World Medical Center (WMC), BCH's premium hospital, were to come in above/below our current expectation, this would present another upside/downside risk to our call.

Source: Thanachart

Very strong operations in 2021F driven by COVID-related services

Two new hospitals due to open in 2021

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	8,880	8,928	13,857	10,940	11,432
Cost of sales	6,052	5,975	9,435	7,425	7,675
Gross profit	**2,828**	**2,953**	**4,422**	**3,514**	**3,757**
% gross margin	31.8%	33.1%	31.9%	32.1%	32.9%
Selling & administration expenses	1,232	1,213	1,508	1,437	1,528
Operating profit	**1,597**	**1,741**	**2,914**	**2,078**	**2,230**
% operating margin	18.0%	19.5%	21.0%	19.0%	19.5%
Depreciation & amortization	665	788	873	902	899
EBITDA	**2,261**	**2,529**	**3,787**	**2,980**	**3,129**
% EBITDA margin	25.5%	28.3%	27.3%	27.2%	27.4%
Non-operating income	116	93	213	146	153
Non-operating expenses	0	0	0	0	0
Interest expense	(131)	(132)	(140)	(119)	(82)
Pre-tax profit	**1,582**	**1,702**	**2,987**	**2,105**	**2,301**
Income tax	286	313	568	389	431
After-tax profit	**1,296**	**1,389**	**2,419**	**1,716**	**1,869**
% net margin	14.6%	15.6%	17.5%	15.7%	16.3%
Shares in affiliates' Earnings	2	3	2	2	2
Minority interests	(163)	(163)	(172)	(140)	(156)
Extraordinary items	0	0	0	0	0
NET PROFIT	**1,135**	**1,229**	**2,249**	**1,578**	**1,715**
Normalized profit	**1,135**	**1,229**	**2,249**	**1,578**	**1,715**
EPS (Bt)	0.5	0.5	0.9	0.6	0.7
Normalized EPS (Bt)	0.5	0.5	0.9	0.6	0.7

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	2,967	3,538	3,789	2,904	2,861
Cash & cash equivalent	879	946	302	302	302
Account receivables	1,817	2,303	3,037	2,248	2,193
Inventories	231	250	388	305	315
Others	40	40	62	49	51
Investments & loans	37	32	32	32	32
Net fixed assets	9,615	11,438	11,175	10,673	10,193
Other assets	1,497	1,519	2,358	1,862	1,945
Total assets	**14,116**	**16,527**	**17,353**	**15,470**	**15,032**
LIABILITIES:					
Current liabilities:	2,186	5,667	5,536	3,875	3,116
Account payables	494	565	905	712	736
Bank overdraft & ST loans	419	2,165	1,682	1,095	657
Current LT debt	299	2,121	1,569	1,022	613
Others current liabilities	974	816	1,380	1,045	1,110
Total LT debt	**4,760**	**2,946**	**2,354**	**1,534**	**920**
Others LT liabilities	192	288	321	254	265
Total liabilities	**7,137**	**8,901**	**8,211**	**5,662**	**4,301**
Minority interest	730	742	914	1,054	1,210
Preferreds shares	0	0	0	0	0
Paid-up capital	2,494	2,494	2,494	2,494	2,494
Share premium	645	645	645	645	645
Warrants	0	0	0	0	0
Surplus	(75)	(92)	(92)	(92)	(92)
Retained earnings	**3,184**	**3,838**	**5,182**	**5,707**	**6,474**
Shareholders' equity	6,248	6,885	8,228	8,754	9,521
Liabilities & equity	**14,116**	**16,527**	**17,353**	**15,470**	**15,032**

Sources: Company data, Thanachart estimates

Strong cash inflow streams

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	1,582	1,702	2,987	2,105	2,301
Tax paid	(289)	(291)	(506)	(426)	(427)
Depreciation & amortization	665	788	873	902	899
Chg In working capital	(308)	(433)	(532)	679	69
Chg In other CA & CL / minorities	(28)	(327)	466	(283)	60
Cash flow from operations	**1,622**	**1,438**	**3,289**	**2,977**	**2,902**
Capex	(1,753)	(2,605)	(610)	(400)	(420)
Right of use	0	(6)	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	2	5	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	73	74	(790)	429	(72)
Cash flow from investments	**(1,678)**	**(2,532)**	**(1,400)**	**29**	**(492)**
Debt financing	778	1,754	(1,627)	(1,954)	(1,461)
Capital increase	0	0	0	0	0
Dividends paid	(549)	(574)	(905)	(1,052)	(948)
Warrants & other surplus	(40)	(19)	0	0	0
Cash flow from financing	**190**	**1,161**	**(2,533)**	**(3,006)**	**(2,410)**
Free cash flow	**(131)**	**(1,167)**	**2,679**	**2,577**	**2,482**

Trading at fair value, in our view

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	45.5	42.0	22.9	32.7	30.1
Normalized PE - at target price (x)	49.7	45.8	25.1	35.7	32.9
PE (x)	45.5	42.0	22.9	32.7	30.1
PE - at target price (x)	49.7	45.8	25.1	35.7	32.9
EV/EBITDA (x)	24.9	22.9	15.0	18.4	17.1
EV/EBITDA - at target price (x)	27.0	24.8	16.3	20.0	18.6
P/BV (x)	8.3	7.5	6.3	5.9	5.4
P/BV - at target price (x)	9.0	8.2	6.8	6.4	5.9
P/CFO (x)	31.8	35.9	15.7	17.3	17.8
Price/sales (x)	5.8	5.8	3.7	4.7	4.5
Dividend yield (%)	1.1	1.1	2.4	1.7	2.0
FCF Yield (%)	(0.3)	(2.3)	5.2	5.0	4.8
(Bt)					
Normalized EPS	0.5	0.5	0.9	0.6	0.7
EPS	0.5	0.5	0.9	0.6	0.7
DPS	0.2	0.2	0.5	0.3	0.4
BV/share	2.5	2.8	3.3	3.5	3.8
CFO/share	0.7	0.6	1.3	1.2	1.2
FCF/share	(0.1)	(0.5)	1.1	1.0	1.0

Sources: Company data, Thanachart estimates

Earnings growth turns negative after COVID-19 subsides in 2022F

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	10.0	0.5	55.2	(21.1)	4.5
Net profit (%)	4.2	8.3	83.0	(29.9)	8.7
EPS (%)	4.2	8.3	83.0	(29.9)	8.7
Normalized profit (%)	4.2	8.3	83.0	(29.9)	8.7
Normalized EPS (%)	4.2	8.3	83.0	(29.9)	8.7
Dividend payout ratio (%)	50.5	46.7	55.0	55.0	60.0
Operating performance					
Gross margin (%)	31.8	33.1	31.9	32.1	32.9
Operating margin (%)	18.0	19.5	21.0	19.0	19.5
EBITDA margin (%)	25.5	28.3	27.3	27.2	27.4
Net margin (%)	14.6	15.6	17.5	15.7	16.3
D/E (incl. minor) (x)	0.8	0.9	0.6	0.4	0.2
Net D/E (incl. minor) (x)	0.7	0.8	0.6	0.3	0.2
Interest coverage - EBIT (x)	12.2	13.2	20.8	17.5	27.3
Interest coverage - EBITDA (x)	17.3	19.1	27.0	25.1	38.3
ROA - using norm profit (%)	8.5	8.0	13.3	9.6	11.2
ROE - using norm profit (%)	19.0	18.7	29.8	18.6	18.8
DuPont					
ROE - using after tax profit (%)	21.7	21.2	32.0	20.2	20.5
- asset turnover (x)	0.7	0.6	0.8	0.7	0.7
- operating margin (%)	19.3	20.5	22.6	20.3	20.8
- leverage (x)	2.2	2.3	2.2	1.9	1.7
- interest burden (%)	92.4	92.8	95.5	94.7	96.6
- tax burden (%)	81.9	81.6	81.0	81.5	81.3
WACC (%)	5.9	5.9	5.9	5.9	5.9
ROIC (%)	13.5	13.1	17.9	12.5	15.0
NOPAT (Bt m)	1,308	1,421	2,360	1,693	1,811
invested capital (Bt m)	10,847	13,171	13,532	12,103	11,409

Sources: Company data, Thanachart estimates

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Recommendation Structure:

Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, an “Overweight” sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. “Underweight” is used when we have SELLs on majority of the stocks we cover by market cap. “Neutral” is used when there are relatively equal weightings of BUYs and SELLs.

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