

BUY (From: HOLD)**TP: Bt 30.00**

(From: Bt 22.60)

Change in Recommendation

Upside : 14.3%

20 JULY 2021

Bangkok Chain Hospital (BCH TB)

Winds beneath its wings

We upgrade BCH to BUY from Hold as we see it as a good investment hedge against the escalating COVID crisis in Thailand. BCH boasts the sector's largest revenue contribution from COVID-19, which we now expect to last into 1H22F. We boost our earnings and TP to Bt30.

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New earnings base; upgrading to BUY

We upgrade BCH to BUY from Hold and raise our DCF-based 12-month TP to Bt30, from Bt22.60. *First*, we see BCH as a good investment hedge against the escalating COVID crisis in Thailand. Among our coverage, we estimate that BCH boasts the sector's highest COVID-related earnings, at c. Bt2bn this year. *Second*, the crisis is dragging on for longer than we had foreseen, and we now see the windfall momentum crossing over into 1H22F. *Third*, the windfall is larger than we had anticipated, and we see its long-term earnings base being sustained too. We thus raise our earnings by a respective 37%, 31% and 12% over 2021-23F. This implies a new earnings base post-COVID in 2023F of 69% above the 2019 level. *Lastly*, at 31.7x PE in 2022F and a 34.1x in post-windfall 2023F, we see BCH as inexpensive, vs. its three-year pre-COVID PE of 36.3x.

Broadest COVID-related services on offer

BCH offers the broadest COVID services in the sector in all three capacity areas, ie, swab tests, hospital and so-called hospital-cum-hotel (hospitel) beds and vaccine services. This is due to 1) its large network of 14 hospitals nationwide, of which seven are in Bangkok and its vicinity, and 2) it being the largest managed-care hospital chain. Hospitals focusing more on cash patients are reluctant to convert too many beds and services to COVID services given fears of a hit to their cash-patient business. (See Exhibit 2 for our COVID sector capacity comparison). Meanwhile, BCH was allocated 1.4m Moderna vaccine doses (35% of the total of 3.9m doses distributed to private hospitals). We estimate BCH to generate COVID earnings of around Bt400m in 2Q21F, Bt900m in 3Q21F, Bt600m in 4Q21F and Bt600m in 1H22F.

Impact on cash and SSS patients

We project BCH's cash and Social Security Scheme (SSS) patient revenue to fall by 9% and 2% in 2021F on patients delaying hospital visits and hospitals putting off elective surgeries. We expect a cash-patient revenue recovery of 24% and for SSS revenue to grow 8% in 2022F with the rebound momentum stronger in 2H22F after COVID subsides more clearly.

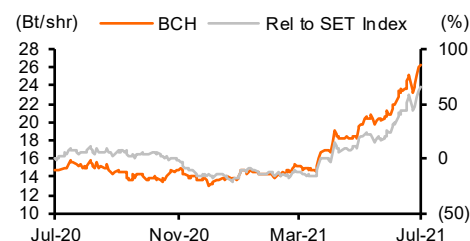
Windfall likely to cross over to 2022F

We estimate BCH's 2Q21F earnings to grow by 135% y-y and 102% q-q to Bt655m. We also expect another big jump to Bt1.3bn in 3Q21F, up by 204% y-y and 92% q-q. Given the current situation of slow vaccinations and infection cases breaking the 10,000 mark every day, we expect 4Q21F earnings to remain high with the momentum lasting into 1H22F, when we do not expect negative y-y growth. On a full-year basis, we foresee BCH's earnings base shifting up from Bt1.1bn p.a. during 2018-19 to Bt3.1bn, Bt2.1bn and Bt1.9bn over 2021-23F.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	8,928	17,889	11,108	10,945
Net profit	1,229	3,077	2,064	1,921
Consensus NP	—	2,122	1,711	1,856
Diff frm cons (%)	—	45.0	20.6	3.5
Norm profit	1,229	3,077	2,064	1,921
Prev. Norm profit	—	2,249	1,578	1,715
Chg frm prev (%)	—	36.8	30.8	12.0
Norm EPS (Bt)	0.5	1.2	0.8	0.8
Norm EPS grw (%)	8.3	150.3	(32.9)	(6.9)
Norm PE (x)	53.2	21.3	31.7	34.1
EV/EBITDA (x)	28.4	14.8	22.6	22.2
P/BV (x)	9.5	7.4	6.9	6.4
Div yield (%)	0.9	2.6	1.7	1.8
ROE (%)	18.7	39.2	22.5	19.5
Net D/E (%)	82.4	53.7	20.5	4.3

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 20-Jul-21 (Bt)	26.25
Market Cap (US\$ m)	1,995.2
Listed Shares (m shares)	2,493.7
Free Float (%)	50.0
Avg Daily Turnover (US\$ m)	20.5
12M Price H/L (Bt)	26.00/13.00
Sector	Health Care
Major Shareholder	Harnphanich Family 50%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Changes In Our Key Assumptions and Earnings Revisions

	2021F	2022F	2023F
Revenue from COVID-related services (Bt m) *			
- New	10,426	3,037	1,441
- Old	4,722	789	331
- Change (%)	120.8	284.7	335.0
BCH's normalized profit (Bt m)			
- New	3,077	2,064	1,921
- Old	2,249	1,578	1,715
- Change (%)	36.8	30.8	12.0

Sources: Company data, Thanachart estimates

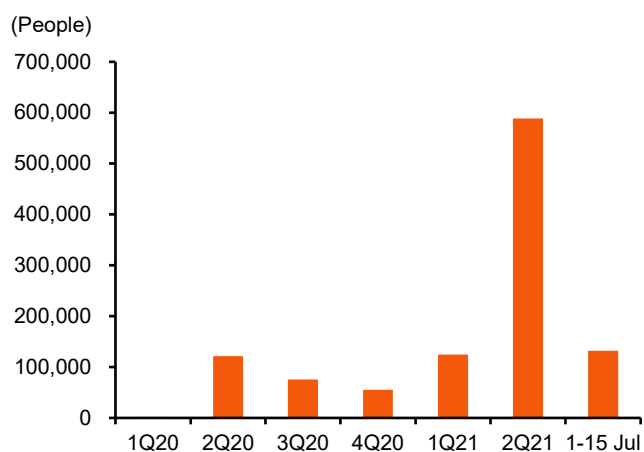
Note: * including COVID-19 patient treatment + COVID-19 tests + COVID-19 vaccinations

Ex 2: COVID Capacity

Hospitals	COVID beds in hospitals	COVID beds in hospitals and field hospitals	Lab tests capacity (cases/day)	Note
BCH	1,700	8,800	16,000	To increase "hospital" beds by 1,000 beds/week over the next few weeks
BDMS	2,000	500	7,000	-
BH	65	-	450	-
CHG	500-600	3,000	3,000	-
LPH	55	500	300	Hospital service launched in early June 2021
PR9	50-60	150	n.a.	-
RJH	260	270	1,000	Hospital service launched in early July 2021
RPH	27	100	300-400	Hospital service is scheduled for launch in late July 2021
THG	100-150	2,600	1,000	-

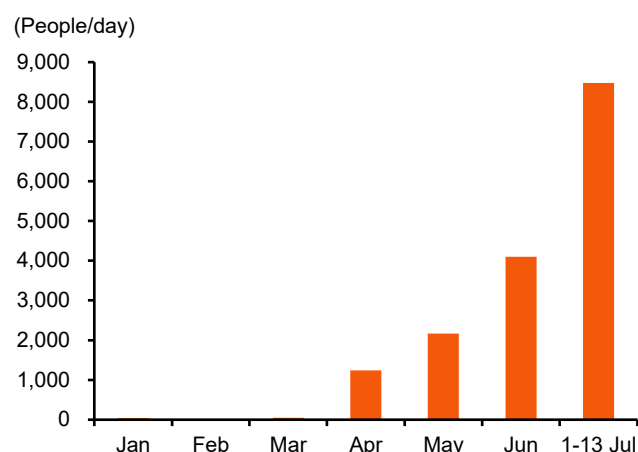
Sources: Company data, Thanachart compilation

Ex 3: # Of Swab Tests By BCH



Source: Company data

Ex 4: Hospitalized Patients @ BCH's Hospitals & Hospitels



Source: Company data

Ex 5: Kasemrad International Hospital Vientiane ...

Source: Company data

Ex 6: ... Inside The Hospital

Source: Company data

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	2,996	2,978	3,241	3,593	3,942	4,252	4,533	4,805	5,090	5,396	5,723	—
Free cash flow	4,483	3,000	3,068	3,346	3,488	3,785	4,053	4,302	4,551	4,817	5,100	106,454
PV of free cash flow	4,471	2,674	2,582	2,610	2,557	2,608	2,624	2,617	2,602	2,474	2,451	51,148
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.6											
WACC (%)	5.9											
Terminal growth (%)	2.0											
Enterprise value	81,417											
Net debt (end-2021F)	5,370											
Minority interest	1,167											
Equity value	74,880											
# of shares (m)	2,494											
Equity value/share (Bt)	30.0											

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	10,725	20.9	29.2	30.8	23.9	3.5	3.3	11.1	10.2	1.7	2.1
Guangzhou Pharmaceutical	874 HK	Hong Kong	7,935	18.3	8.1	10.8	10.0	1.3	1.2	8.7	8.8	2.0	2.0
Lijun Int'l Pharmaceutical	2005 HK	Hong Kong	2,476	36.8	19.6	16.0	13.4	3.0	2.6	11.4	9.8	2.4	2.9
Apollo Hospitals Enterprise	APHS IN	India	7,493	na	740.1	651.1	77.5	13.3	10.6	49.9	28.6	0.1	0.2
Fortis Healthcare India	FORH IN	India	2,413	na	na	na	53.1	2.7	2.7	47.2	22.6	0.0	0.0
KPJ Healthcare	KPJ MK	Malaysia	1,075	(10.3)	53.8	40.8	26.5	2.0	1.9	13.6	11.6	1.3	1.9
IHH Healthcare Bhd	IHH MK	Malaysia	11,947	98.4	22.4	46.0	37.6	2.2	2.1	17.7	15.8	0.8	0.9
Ryman	RYM NZ	New Zealand	4,495	(7.6)	30.1	28.0	21.5	2.6	2.1	32.0	24.7	1.8	2.3
Raffles Medical Group	RFMD SP	Singapore	1,612	52.2	11.4	33.7	30.3	2.4	2.3	18.5	16.8	2.1	1.9
Bangkok Chain Hospital *	BCH TB	Thailand	1,995	150.3	(32.9)	21.3	31.7	7.4	6.9	14.8	22.6	2.6	1.7
Bangkok Dusit Medical *	BDMS TB	Thailand	11,140	15.6	29.6	52.3	40.4	4.1	3.9	28.2	23.1	1.1	1.4
Bumrungrad Hospital *	BH TB	Thailand	2,979	0.5	57.9	81.1	51.3	5.5	5.4	36.3	26.5	1.2	1.9
Chularat Hospital *	CHG TB	Thailand	1,388	33.1	5.6	39.0	37.0	10.1	9.3	29.5	28.1	1.8	1.9
Ladprao General Hospital *	LPH TB	Thailand	138	49.6	(13.0)	20.4	23.4	2.9	2.8	11.4	12.2	3.9	3.4
Praram 9 Hospital *	PR9 TB	Thailand	256	19.1	22.1	35.0	28.6	2.0	1.9	14.0	11.6	1.3	1.6
Rajthanee Hospital *	RJH TB	Thailand	302	27.2	(1.3)	21.0	21.3	6.1	5.8	13.9	14.0	3.8	3.8
Ratchaphruek Hospital *	RPH TB	Thailand	105	16.0	19.6	31.6	26.4	2.5	2.4	16.1	14.3	2.5	3.0
Thonburi Healthcare Group*	THG TB	Thailand	783	na	123.4	166.2	74.4	3.3	3.2	26.6	22.5	0.4	0.9
Average				34.7	66.2	77.9	34.9	4.3	3.9	22.3	18.0	1.7	1.9

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

Based on 20 Jul 2021 closing prices

COMPANY DESCRIPTION

Bangkok Chain Hospital (BCH) runs 14 hospitals, located in Bangkok and upcountry, with a total number of licensed beds of 2,114 at end 2Q21. 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.

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.

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.

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)	26.78	30.00	12%
Net profit 21F (Bt m)	2,122	3,077	45%
Net profit 22F (Bt m)	1,711	2,064	21%
Consensus REC	BUY: 15	HOLD: 5	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings and TP are above the Bloomberg consensus numbers, likely given our more bullish view on BCH's revenue contribution from COVID-related treatment and services and COVID vaccine sales.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- The key downside risk to our call would be if BCH's strategy of boosting revenue from the cash-patient business were to work worse than our current expectations.
- A secondary downside risk would be if BCH's registered patients under the SSS are lower than our current assumptions.
- If BCH's new hospitals turn around slower than our expectations, this would present another downside risk to our call.

Source: Thanachart

INCOME STATEMENT

Earnings set to reach a new, higher base

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	8,880	8,928	17,889	11,108	10,945
Cost of sales	6,052	5,975	12,241	7,643	7,456
Gross profit	2,828	2,953	5,648	3,464	3,489
% gross margin	31.8%	33.1%	31.6%	31.2%	31.9%
Selling & administration expenses	1,232	1,213	1,737	1,368	1,431
Operating profit	1,597	1,741	3,911	2,096	2,059
% operating margin	18.0%	19.5%	21.9%	18.9%	18.8%
Depreciation & amortization	665	788	872	900	919
EBITDA	2,261	2,529	4,783	2,996	2,978
% EBITDA margin	25.5%	28.3%	26.7%	27.0%	27.2%
Non-operating income	116	93	572	897	641
Non-operating expenses	0	0	0	0	0
Interest expense	(131)	(132)	(129)	(106)	(47)
Pre-tax profit	1,582	1,702	4,354	2,887	2,653
Income tax	286	313	853	554	497
After-tax profit	1,296	1,389	3,501	2,333	2,156
% net margin	14.6%	15.6%	19.6%	21.0%	19.7%
Shares in affiliates' Earnings	2	3	2	2	2
Minority interests	(163)	(163)	(425)	(271)	(237)
Extraordinary items	0	0	0	0	0
NET PROFIT	1,135	1,229	3,077	2,064	1,921
Normalized profit	1,135	1,229	3,077	2,064	1,921
EPS (Bt)	0.5	0.5	1.2	0.8	0.8
Normalized EPS (Bt)	0.5	0.5	1.2	0.8	0.8

BALANCE SHEET

Two new hospitals due to open in 2021

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	2,967	3,538	4,806	2,948	2,756
Cash & cash equivalent	879	946	302	302	302
Account receivables	1,817	2,303	3,921	2,282	2,099
Inventories	231	250	503	314	306
Others	40	40	80	50	49
Investments & loans	37	32	32	32	32
Net fixed assets	9,615	11,438	11,126	10,626	10,107
Other assets	1,497	1,519	3,044	1,890	1,863
Total assets	14,116	16,527	19,008	15,496	14,758
LIABILITIES:					
Current liabilities:	2,186	5,667	6,215	3,254	2,233
Account payables	494	565	1,140	712	695
Bank overdraft & ST loans	419	2,165	1,702	763	243
Current LT debt	299	2,121	1,588	712	227
Others current liabilities	974	816	1,785	1,067	1,069
Total LT debt	4,760	2,946	2,382	1,068	340
Others LT liabilities	192	288	415	257	254
Total liabilities	7,137	8,901	9,012	4,579	2,827
Minority interest	730	742	1,167	1,438	1,675
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	5,782	6,432	7,209
Shareholders' equity	6,248	6,885	8,829	9,479	10,256
Liabilities & equity	14,116	16,527	19,008	15,496	14,758

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

Strong cash inflow streams

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	1,582	1,702	4,354	2,887	2,653
Tax paid	(289)	(291)	(732)	(647)	(503)
Depreciation & amortization	665	788	872	900	919
Chg In working capital	(308)	(433)	(1,296)	1,399	174
Chg In other CA & CL / minorities	(28)	(327)	783	(593)	10
Cash flow from operations	1,622	1,438	3,980	3,946	3,253
Capex	(1,753)	(2,605)	(560)	(400)	(400)
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	(1,371)	997	24
Cash flow from investments	(1,678)	(2,532)	(1,931)	597	(376)
Debt financing	778	1,754	(1,560)	(3,129)	(1,733)
Capital increase	0	0	0	0	0
Dividends paid	(549)	(574)	(1,133)	(1,414)	(1,144)
Warrants & other surplus	(40)	(19)	0	0	0
Cash flow from financing	190	1,161	(2,693)	(4,543)	(2,877)
Free cash flow	(131)	(1,167)	3,420	3,546	2,853

VALUATION

2022F PE is not yet fully valued

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	57.7	53.2	21.3	31.7	34.1
Normalized PE - at target price (x)	65.9	60.9	24.3	36.3	38.9
PE (x)	57.7	53.2	21.3	31.7	34.1
PE - at target price (x)	65.9	60.9	24.3	36.3	38.9
EV/EBITDA (x)	31.0	28.4	14.8	22.6	22.2
EV/EBITDA - at target price (x)	35.1	32.1	16.8	25.7	25.3
P/BV (x)	10.5	9.5	7.4	6.9	6.4
P/BV - at target price (x)	12.0	10.9	8.5	7.9	7.3
P/CFO (x)	40.4	45.5	16.4	16.6	20.1
Price/sales (x)	7.4	7.3	3.7	5.9	6.0
Dividend yield (%)	0.9	0.9	2.6	1.7	1.8
FCF Yield (%)	(0.2)	(1.8)	5.2	5.4	4.4
(Bt)					
Normalized EPS	0.5	0.5	1.2	0.8	0.8
EPS	0.5	0.5	1.2	0.8	0.8
DPS	0.2	0.2	0.7	0.5	0.5
BV/share	2.5	2.8	3.5	3.8	4.1
CFO/share	0.7	0.6	1.6	1.6	1.3
FCF/share	(0.1)	(0.5)	1.4	1.4	1.1

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

Strong financial status

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	10.0	0.5	100.4	(37.9)	(1.5)
Net profit (%)	4.2	8.3	150.3	(32.9)	(6.9)
EPS (%)	4.2	8.3	150.3	(32.9)	(6.9)
Normalized profit (%)	4.2	8.3	150.3	(32.9)	(6.9)
Normalized EPS (%)	4.2	8.3	150.3	(32.9)	(6.9)
Dividend payout ratio (%)	50.5	46.7	55.0	55.0	60.0
Operating performance					
Gross margin (%)	31.8	33.1	31.6	31.2	31.9
Operating margin (%)	18.0	19.5	21.9	18.9	18.8
EBITDA margin (%)	25.5	28.3	26.7	27.0	27.2
Net margin (%)	14.6	15.6	19.6	21.0	19.7
D/E (incl. minor) (x)	0.8	0.9	0.6	0.2	0.1
Net D/E (incl. minor) (x)	0.7	0.8	0.5	0.2	0.0
Interest coverage - EBIT (x)	12.2	13.2	30.3	19.9	43.9
Interest coverage - EBITDA (x)	17.3	19.1	37.1	28.4	63.4
ROA - using norm profit (%)	8.5	8.0	17.3	12.0	12.7
ROE - using norm profit (%)	19.0	18.7	39.2	22.5	19.5
DuPont					
ROE - using after tax profit (%)	21.7	21.2	44.6	25.5	21.8
- asset turnover (x)	0.7	0.6	1.0	0.6	0.7
- operating margin (%)	19.3	20.5	25.1	26.9	24.7
- leverage (x)	2.2	2.3	2.3	1.9	1.5
- interest burden (%)	92.4	92.8	97.1	96.5	98.3
- tax burden (%)	81.9	81.6	80.4	80.8	81.3
WACC (%)	5.9	5.9	5.9	5.9	5.9
ROIC (%)	13.5	13.1	23.9	11.9	14.3
NOPAT (Bt m)	1,308	1,421	3,144	1,694	1,673
invested capital (Bt m)	10,847	13,171	14,199	11,720	10,764

Sources: Company data, Thanachart estimates

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