BUY (Unchanged)

Change in Numbers

TP: Bt 27.00 (From: Bt 26.00)

Upside : 17.4%

13 AUGUST 2021

Thanachart Securities

Bangkok Dusit Medical (BDMS TB)

Balancing act

SIRIPORN ARUNOTHAI

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We regard BDMS as a balancing-act investment choice with a COVID revenue cushion this year and recovering high-intensity cash and foreign patients in the next two years. With this, after 16% earnings growth this year, BDMS still offers double-digit earnings growth in 2022-23F. We believe it is time to BUY.

Both a COVID and a post-COVID play

We see BDMS as a choice for investors looking for a post-COVID turnaround stock that doesn't have a bad earnings outlook in 2H21F. Unlike some other high-tier hospitals that offer fewer COVID services than mid-tier hospitals, BDMS has opted to add COVID capacities (Exhibit 1) and we estimate 16% earnings growth in 2021F, when COVID services account for 24% of total profit. We see BDMS as a stronger post-COVID turnaround play with 16% EPS growth in 2022F vs. other mid-tier COVID picks with an average 20% decline. We fine tune our 2021F earnings but cut 2022-23F by 10-11.5% to reflect a slower Thai and foreign patient revenue recovery. Our DCF-based 12-month TP is rolled over to a 2022F base year at Bt27 (vs. Bt26). Reaffirm BUY.

Enhancing capacity for COVID patients

BDMS is the largest hospital chain in Thailand with 49 hospitals, c. 30% of which are in the mid-tier category. BDMS now allocates 2,850 beds (45% of total capacity) for COVID services, up 50% from May. Meanwhile, it has lifted hospital-cum-hotel (hospitel) and field hospital capacity by 707% to 4,300 beds. COVID test capacity is also up 41% from May to 8,600 cases/day. BDMS has a 7% share of Moderna vaccines from the Government Pharmaceutical Organization's procurement of 3.9m doses this year. We estimate BDMS to generate COVID-related earnings of Bt1.7bn, Bt1.1bn and Bt403m in 2021F-23F, respectively.

Non-COVID cash patients, post-COVID driver

BDMS's Thai cash patient revenue fell 5% in 2020 while foreign patient revenue was down 44%. Foreign revenue was at 30% of total revenue in 2019. This year we still expect a 6.5% drop in non-COVID Thai patients and a lack of foreign patients. Thai patient revenue has been hit by lower purchasing power and delayed treatment due to COVID fears. When COVID subsides, we expect Thai patients to recover 7% in 2022F. The lower purchasing power impact is being cushioned by BDMS's policy for quite some years to increase its insurance-pay patients (31% of revenues in 2Q21). For foreign patients we expect a gradual recovery from 2H22F or 25% volume growth p.a. in 2022-23F from a very low base this year. We expect Thai and foreign patients to return to their 2019 pre-COVID levels in 2024.

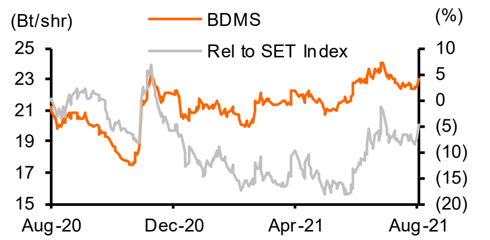
Also a high operating leverage play

As a higher-tier hospital group offering premium services, BDMS has relatively high fixed costs. A revenue turnaround or rising utilization is therefore more likely to boost margin faster. We project its operating margin to rise to 8.4%, 9.1% and 9.8% in 2021-23F. BDMS is also adjusting its long-term expansion model with lower committed capex.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	65,166	69,863	75,673	85,355
Net profit	7,214	6,986	8,110	9,563
Consensus NP	—	7,124	9,011	10,630
Diff frm cons (%)	—	*(1.9)*	*(10.0)*	*(10.0)*
Norm profit	6,045	6,986	8,110	9,563
Prev. Norm profit	—	6,987	9,052	10,811
Chg frm prev (%)	—	*(0.0)*	*(10.4)*	*(11.5)*
Norm EPS (Bt)	0.4	0.4	0.5	0.6
Norm EPS grw (%)	(36.3)	15.6	16.1	17.9
Norm PE (x)	60.5	52.3	45.1	38.2
EV/EBITDA (x)	31.7	28.2	25.3	22.1
P/BV (x)	4.2	4.1	3.9	3.8
Div yield (%)	2.4	1.1	1.2	1.4
ROE (%)	7.0	7.9	9.0	10.1
Net D/E (%)	(0.2)	(1.5)	(6.2)	(11.3)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 13-Aug-21 (Bt)	23.00
Market Cap (US$ m)	10,961.0
Listed Shares (m shares)	15,892.0
Free Float (%)	66.0
Avg Daily Turnover (US$ m)	24.0
12M Price H/L (Bt)	24.00/17.50
Sector	Health Care
Major Shareholder	Prasarttong-Osoth Family 19.23%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: BDMS's COVID-19 Capacity

Ended	May 2021	June 2021	7 August 2021
Hospital beds	1,900	1,900	2,850
Hospitel / Field hospital beds	533	1,700	4,300+*
Swab tests (cases/day)	6,120	8,100	8,600

Sources: Company data, Thanachart compilation

Note: * BDMS will add 200 hospitel beds in the rest of this month

Ex 2: Changes In Our Key Assumptions And Earnings Revisions

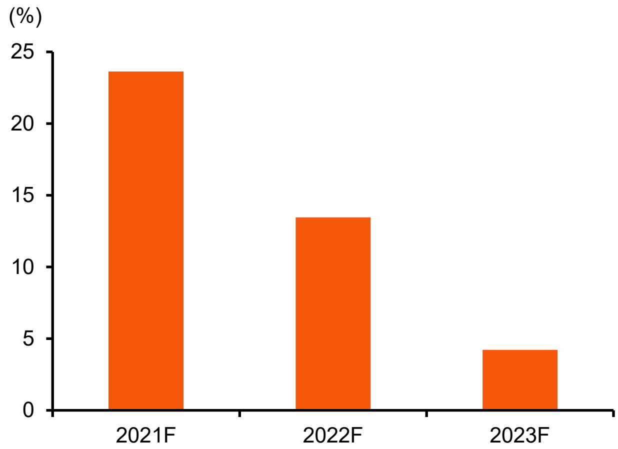
	2019A	2021A	2021F	2022F	2023F
Thai patient growth - OPD (%)					
- New	4.2	(10.2)	(6.5)	7.0	10.0
- Old	4.2	(10.2)	5.0	7.5	5.5
- Change (pp)	—	—	*(11.5)*	*(0.5)*	*4.5*
Thai patient growth - IPD (%)					
- New	3.5	(27.9)	(6.5)	7.0	10.0
- Old	3.5	(27.9)	8.0	10.5	7.5
- Change (pp)	—	—	*(14.5)*	*(3.5)*	*2.5*
Foreign patient growth - OPD (%)					
- New	1.9	(37.3)	(15.0)	25.0	25.0
- Old	1.9	(37.3)	(5.0)	21.5	15.0
- Change (pp)	—	—	*(10.0)*	*3.5*	*10.0*
Foreign patient growth - IPD (%)					
- New	1.7	(43.9)	(25.0)	35.0	35.0
- Old	1.7	(43.9)	(10.0)	52.0	27.0
- Change (pp)	—	—	*(15.0)*	*(17.0)*	*8.0*
Gross margin (%)					
- New	31.8	28.8	29.4	29.9	30.6
- Old	31.8	28.8	29.8	31.1	31.7
- Change (pp)	—	—	*(0.5)*	*(1.2)*	*(1.0)*
SG&A to sales (%)					
- New	21.9	21.7	20.9	20.8	20.8
- Old	21.9	21.7	21.3	21.1	20.9
- Change (pp)	—	—	*(0.4)*	*(0.3)*	*(0.1)*
Interest expenses (Bt m)					
- New	929	871	734	614	430
- Old	929	871	846	776	552
- Change (%)	—	—	*(13.2)*	*(20.9)*	*(22.1)*
Revenue from COVID-19 services (Bt m)					
- New	—	—	9,695	5,810	1,299
- Old	—	—	2,945	1,013	396
- Change (%)	—	—	*229.2*	*473.9*	*228.0*
Normalized profit (Bt m)					
- New	9,422	6,045	6,986	8,110	9,563
- Old	9,422	6,045	6,987	9,052	10,811
- Change (%)	—	—	*(0.0)*	*(10.4)*	*(11.5)*

Sources: Company data, Thanachart estimates

Ex 3: BDMS's Field Hospital @ Thupatemi Stadium

Source: Company data

Ex 4: BDMS's Earnings From COVID-19 Services



Source: Thanachart estimates

Ex 5: 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	13,684	15,470	18,178	20,224	22,022	23,716	25,475	27,357	29,370	31,525	33,833	—
Free cash flow	10,478	11,926	14,237	15,834	17,606	19,257	20,882	22,584	24,394	26,320	28,374	591,125
PV of free cash flow	10,449	10,629	11,975	12,347	12,901	13,260	13,510	13,730	13,936	13,508	13,620	283,756

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.6
WACC (%)	5.9
Terminal growth (%)	2.0
Enterprise value -	423,622
add investments	
Net debt (end-2021F)	(1,358)
Minority interest	4,082
Equity value	420,898
# of shares (m)	15,892
Equity value/share (Bt)	**27.00**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 6: 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	11,381	21.0	26.3	32.6	25.8	3.7	3.5	11.5	10.5	1.7	2.1
Guangzhou Pharmaceutical	874 HK	Hong Kong	7,183	18.3	8.1	9.6	8.9	1.2	1.0	7.8	7.9	2.2	2.2
Lijun Int'l Pharmaceutical	2005 HK	Hong Kong	2,088	34.7	22.4	13.7	11.2	2.5	2.2	9.9	8.3	2.8	3.4
Apollo Hospitals Enterprise	APHS IN	India	7,864	na	741.8	680.2	80.8	13.9	11.1	53.6	30.6	0.1	0.2
Fortis Healthcare India	FORH IN	India	2,417	na	na	na	52.9	2.7	2.7	47.1	22.5	0.0	0.0
KPJ Healthcare	KPJ MK	Malaysia	1,093	(10.3)	57.7	41.5	26.3	2.1	1.9	13.7	11.7	1.2	1.9
IHH Healthcare Bhd	IHH MK	Malaysia	12,018	98.4	24.0	46.4	37.4	2.2	2.1	17.9	15.9	0.8	1.0
Ryman	RYM NZ	New Zealand	4,871	(7.6)	30.8	29.9	22.9	2.7	2.2	33.6	25.7	1.6	2.1
Raffles Medical Group	RFMD SP	Singapore	1,953	65.2	5.3	37.4	35.5	2.8	2.8	20.6	19.2	2.0	1.8
Bangkok Chain Hospital *	BCH TB	Thailand	1,802	150.3	(32.9)	19.5	29.1	6.8	6.3	13.7	20.8	2.8	1.9
Bangkok Dusit Medical *	BDMS TB	Thailand	10,961	15.6	16.1	52.3	45.1	4.1	3.9	28.2	25.3	1.1	1.2
Bumrungrad Hospital *	BH TB	Thailand	3,050	0.5	57.9	84.4	53.4	5.7	5.6	37.8	27.7	1.2	1.9
Chularat Hospital *	CHG TB	Thailand	1,319	57.8	2.6	31.8	31.0	9.5	8.7	24.5	24.1	2.2	2.3
Ladprao General Hospital *	LPH TB	Thailand	145	49.6	(13.0)	21.7	25.0	3.1	3.0	12.1	12.9	3.7	3.2
Praram 9 Hospital *	PR9 TB	Thailand	236	19.1	22.1	32.7	26.8	1.8	1.8	12.9	10.7	1.4	1.7
Rajthanee Hospital *	RJH TB	Thailand	335	76.6	(21.5)	17.0	21.7	6.4	6.3	11.8	14.6	4.7	3.7
Ratchaphruek Hospital *	RPH TB	Thailand	99	16.0	19.6	30.3	25.4	2.4	2.3	15.5	13.7	2.6	3.2
Thonburi Healthcare Group*	THG TB	Thailand	732	na	123.4	155.2	69.5	3.1	3.0	25.2	21.3	0.5	1.0
Average				**40.3**	**64.1**	**78.6**	**34.9**	**4.3**	**3.9**	**22.1**	**18.0**	**1.8**	**1.9**

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

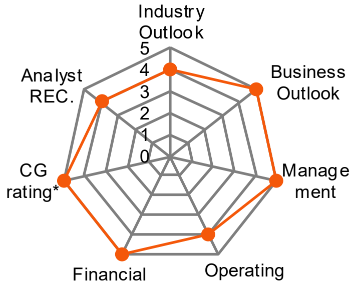
Based on 13 Aug 2021 closing prices

COMPANY DESCRIPTION

Bangkok Dusit Medical Services Pcl (BDMS) was founded in 1969 and opened its first private hospital known as “Bangkok Hospital” in 1972. It is now the largest private hospital operator in Thailand in terms of patient service revenue and market capitalization. Its main focus is Bangkok and various high-growth markets nationwide.

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

- As BDMS runs 47 hospitals nationwide (including Phyathai and Paolo groups) and two in Cambodia, revenue is diversified against any particular risk in one location.
- A strong balance sheet enhances BDMS’s expansion and acquisition ability.

W — Weakness

- Since depreciation expenses make up about 10% of its 2020 revenues, BDMS’s earnings are sensitive to changes in revenue and economic conditions.

O — Opportunity

- Rising incomes make it more affordable for people to pay for better-quality healthcare services at private hospitals.
- More complex medical treatments due to the ageing trend.
- Thailand being a value-for-money destination for medical tourism.

T — Threat

- Aggressive pricing policies of direct regional rivals such as hospitals in Singapore are being supported by their governments.
- Slowdown in economy.
- Political and regulatory risks.
- Natural disasters and disease outbreaks.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	25.96	27.00	4%
Net profit 21F (Bt m)	7,124	6,986	-2%
Net profit 22F (Bt m)	9,011	8,110	-10%
Consensus REC	**BUY: 23**	**HOLD: 5**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F earnings are below the Bloomberg consensus numbers, which we attribute to us having a more conservative view on a foreign patient turnaround. But our TP is above the Street’s likely given our base-year rollover to 2022F and our more bullish view on BDMS’s long-term growth prospects.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- BDMS’s new hospitals may turn profitable slower than we currently expect if there is more intense competition from existing private healthcare operators or if there were to be newcomers to the healthcare market in Thailand.
- If the number of Thai and international patient flows were to be lower than our current expectations.
- If the BDMS Wellness Clinic turns profitable slower than we currently anticipate.
- If the Adjusted Relative Weight (RW) under the Social Security Scheme drops, there could be downside risk to our earnings forecasts.

Source: Thanachart

We foresee an earnings turnaround trend in 2021-23F

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	79,630	65,166	69,863	75,673	85,355
Cost of sales	54,277	46,371	49,358	53,032	59,200
Gross profit	**25,354**	**18,795**	**20,505**	**22,641**	**26,155**
% gross margin	31.8%	28.8%	29.4%	29.9%	30.6%
Selling & administration expenses	17,447	14,161	14,620	15,776	17,786
Operating profit	**7,907**	**4,634**	**5,885**	**6,864**	**8,369**
% operating margin	9.9%	7.1%	8.4%	9.1%	9.8%
Depreciation & amortization	5,752	6,909	7,045	7,333	7,612
EBITDA	**13,659**	**11,543**	**12,930**	**14,197**	**15,981**
% EBITDA margin	17.2%	17.7%	18.5%	18.8%	18.7%
Non-operating income	4,263	3,935	4,147	4,410	4,603
Non-operating expenses	0	0	0	0	0
Interest expense	(929)	(871)	(734)	(614)	(430)
Pre-tax profit	**11,241**	**7,699**	**9,298**	**10,661**	**12,542**
Income tax	2,350	1,491	1,813	2,079	2,446
After-tax profit	**8,892**	**6,207**	**7,485**	**8,582**	**10,096**
% net margin	11.2%	9.5%	10.7%	11.3%	11.8%
Shares in affiliates' Earnings	1,022	273	30	33	36
Minority interests	(492)	(435)	(529)	(505)	(570)
Extraordinary items	6,095	1,169	0	0	0
NET PROFIT	**15,517**	**7,214**	**6,986**	**8,110**	**9,563**
Normalized profit	**9,422**	**6,045**	**6,986**	**8,110**	**9,563**
EPS (Bt)	1.0	0.5	0.4	0.5	0.6
Normalized EPS (Bt)	0.6	0.4	0.4	0.5	0.6

Strong balance sheet, based on our forecasts

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	16,325	30,013	24,486	26,424	29,302
Cash & cash equivalent	5,596	20,939	14,773	16,273	18,273
Account receivables	8,850	7,192	7,656	8,086	8,886
Inventories	1,843	1,855	2,028	2,034	2,109
Others	36	27	28	31	35
Investments & loans	18,004	1,542	1,542	1,542	1,542
Net fixed assets	78,440	81,313	80,776	79,956	78,855
Other assets	20,893	23,182	24,506	26,164	29,005
Total assets	**133,662**	**136,050**	**131,310**	**134,086**	**138,705**
LIABILITIES:					
Current liabilities:	19,263	11,220	12,064	12,773	14,287
Account payables	5,990	4,450	4,733	5,085	5,677
Bank overdraft & ST loans	90	90	0	0	0
Current LT debt	5,210	107	67	51	34
Others current liabilities	7,973	6,573	7,264	7,636	8,577
Total LT debt	**19,130**	**20,594**	**13,348**	**10,195**	**6,695**
Others LT liabilities	8,087	12,773	13,212	13,969	15,300
Total liabilities	**46,480**	**44,588**	**38,624**	**36,936**	**36,282**
Minority interest	3,368	3,553	4,082	4,587	5,156
Preferreds shares	0	0	0	0	0
Paid-up capital	1,589	1,589	1,589	1,589	1,589
Share premium	30,166	30,166	30,166	30,166	30,166
Warrants	0	0	0	0	0
Surplus	6,174	8,880	8,880	8,880	8,880
Retained earnings	**45,884**	**47,275**	**47,970**	**51,928**	**56,631**
Shareholders' equity	83,813	87,910	88,605	92,563	97,266
Liabilities & equity	**133,662**	**136,050**	**131,310**	**134,086**	**138,705**

Sources: Company data, Thanachart estimates

Strong sustainable cash inflow stream

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	11,241	7,699	9,298	10,661	12,542
Tax paid	(2,200)	(800)	(2,159)	(1,712)	(2,368)
Depreciation & amortization	5,752	6,909	7,045	7,333	7,612
Chg In w orking capital	(564)	106	(355)	(83)	(284)
Chg In other CA & CL / minorities	549	(2,060)	1,066	35	896
Cash flow from operations	**14,779**	**11,853**	**14,895**	**16,234**	**18,398**
Capex	(9,645)	(9,286)	(6,000)	(6,000)	(6,000)
Right of use	0	(3,811)	(400)	(400)	(400)
ST loans & investments	0	0	0	0	0
LT loans & investments	5,170	16,462	0	0	0
Adj for asset revaluation	(5)	2,705	0	0	0
Chg In other assets & liabilities	6,986	6,881	(993)	(1,015)	(1,620)
Cash flow from investments	**2,506**	**12,951**	**(7,393)**	**(7,415)**	**(8,020)**
Debt financing	(15,520)	(3,638)	(7,376)	(3,169)	(3,518)
Capital increase	5,447	0	0	0	0
Dividends paid	(6,941)	(4,741)	(6,291)	(4,151)	(4,860)
Warrants & other surplus	(526)	(1,082)	0	0	0
Cash flow from financing	**(17,539)**	**(9,461)**	**(13,668)**	**(7,320)**	**(8,378)**
Free cash flow	**5,134**	**2,567**	**8,895**	**10,234**	**12,398**

Deserve to trade at high PE due to strong earnings turnaround

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	38.5	60.5	52.3	45.1	38.2
Normalized PE - at target price (x)	45.2	71.0	61.4	52.9	44.9
PE (x)	23.4	50.7	52.3	45.1	38.2
PE - at target price (x)	27.5	59.5	61.4	52.9	44.9
EV/EBITDA (x)	28.0	31.7	28.2	25.3	22.1
EV/EBITDA - at target price (x)	32.6	37.2	33.1	29.8	26.1
P/BV (x)	4.4	4.2	4.1	3.9	3.8
P/BV - at target price (x)	5.1	4.9	4.8	4.6	4.4
P/CFO (x)	24.6	30.8	24.5	22.5	19.9
Price/sales (x)	4.6	5.6	5.2	4.8	4.3
Dividend yield (%)	2.4	2.4	1.1	1.2	1.4
FCF Yield (%)	1.4	0.7	2.4	2.8	3.4
(Bt)					
Normalized EPS	0.6	0.4	0.4	0.5	0.6
EPS	1.0	0.5	0.4	0.5	0.6
DPS	0.6	0.6	0.2	0.3	0.3
BV/share	5.3	5.5	5.6	5.8	6.1
CFO/share	0.9	0.7	0.9	1.0	1.2
FCF/share	0.3	0.2	0.6	0.6	0.8

Sources: Company data, Thanachart estimates

Rising asset utilization enhances margins

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	7.2	(18.2)	7.2	8.3	12.8
Net profit (%)	68.8	(53.5)	(3.2)	16.1	17.9
EPS (%)	66.7	(53.8)	(3.2)	16.1	17.9
Normalized profit (%)	(5.0)	(35.8)	15.6	16.1	17.9
Normalized EPS (%)	(6.2)	(36.3)	15.6	16.1	17.9
Dividend payout ratio (%)	56.3	121.2	55.0	55.0	55.0
Operating performance					
Gross margin (%)	31.8	28.8	29.4	29.9	30.6
Operating margin (%)	9.9	7.1	8.4	9.1	9.8
EBITDA margin (%)	17.2	17.7	18.5	18.8	18.7
Net margin (%)	11.2	9.5	10.7	11.3	11.8
D/E (incl. minor) (x)	0.3	0.2	0.1	0.1	0.1
Net D/E (incl. minor) (x)	0.2	(0.0)	(0.0)	(0.1)	(0.1)
Interest coverage - EBIT (x)	8.5	5.3	8.0	11.2	19.5
Interest coverage - EBITDA (x)	14.7	13.3	17.6	23.1	37.2
ROA - using norm profit (%)	7.1	4.5	5.2	6.1	7.0
ROE - using norm profit (%)	12.2	7.0	7.9	9.0	10.1
DuPont					
ROE - using after tax profit (%)	11.5	7.2	8.5	9.5	10.6
- asset turnover (x)	0.6	0.5	0.5	0.6	0.6
- operating margin (%)	15.3	13.2	14.4	14.9	15.2
- leverage (x)	1.7	1.6	1.5	1.5	1.4
- interest burden (%)	92.4	89.8	92.7	94.6	96.7
- tax burden (%)	79.1	80.6	80.5	80.5	80.5
WACC (%)	5.9	5.9	5.9	5.9	5.9
ROIC (%)	6.0	3.6	5.4	6.3	7.8
NOPAT (Bt m)	6,254	3,737	4,738	5,526	6,737
invested capital (Bt m)	102,647	87,762	87,247	86,536	85,722

Sources: Company data, Thanachart estimates

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