BUY (Unchanged) **TP: Bt 4.10** (From: Bt 3.50)

Change in Numbers **Upside : 17.8%** **21 JUNE 2021**

Small Cap Research

Chularat Hospital Pcl (CHG TB)

Our preferred choice

Though we see BCH and CHG as the top two COVID beneficiaries, we still prefer CHG to BCH as CHG's EPS growth outlook after COVID subsides is better at 6%, vs. BCH's at -30% in 2022F. CHG's 2022F PE of 31.1x is also slightly lower than BCH's 32.7x. We reaffirm our BUY call on CHG with a higher rolled-over DCF-based TP of Bt4.1.

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Thanachart Securities

We still prefer CHG to BCH

We lift our earnings by 4-8% over 2021-23F to reflect stronger-than-expected revenue from COVID-related services and a newly signed contract to manage a heart center. Together with rolling over to a 2022F base year, we raise our DCF-based 12-month TP to Bt4.1 from Bt3.5. In the same mid-tier Social Security Scheme (SSS) hospital chain league, we prefer CHG to Bangkok Chain Hospital (BCH, Bt20.7, HOLD) as CHG's EPS growth outlook after COVID-19 subsides is better at 6% in 2022F, vs. BCH's -30%. CHG's 2022F PE of 31.1x is also slightly lower than BCH's 32.7x. We reaffirm our BUY call on CHG.

COVID-related services

CHG's COVID tests remained at 1,000 cases/day in June, down from a peak of 1,500+ in mid-April. Given high numbers of cases, CHG has opened four hospital-cum-hotels (hospitels) with 1,500 beds for mild cases. The utilization rate is 30-40%. CHG has also allocated 300 out of 793 active beds for more severe cases. They are almost fully utilized. CHG's Alternative State Quarantine (ASQ) service revenue has remained strong. Similar to other hospitals, CHG also helps the National Health Security Office, the Social Security Office and corporates with vaccinations. We estimate CHG's revenue from COVID-related services at Bt784m, Bt150m and Bt44m in 2021-23F.

Gearing toward a more asset-light model

In the beginning of this year, CHG signed three management contracts consisting of two contracts to manage two hospitals – Pattaya City Hospital and International Medical Center And Emergency Services – and one contract to manage a heart center at Sirindhorn Hospital. Recently, CHG signed a new three-year contract with Samut Prakarn Hospital to manage a heart center. The total value of the contract is Bt280m. CHG should start to recognize revenue from the new contract in 4Q21. We estimate revenue contribution from these four contracts at Bt353m, Bt507m and Bt441m in 2021-23F.

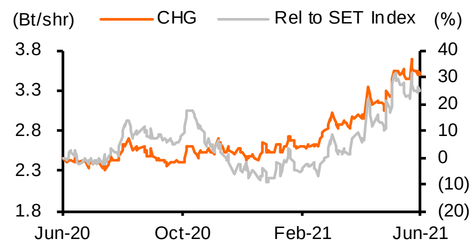
304 and RPC's losses to decline

Though Chularat 304 Int'l Hospital has been hit by a new rival in Prachinburi, its participation in the Social Security Scheme early this year caused the hospital's loss to fall y-y in 1Q21. Meanwhile, Ruampat Chachoengsao's operation turned a profit from 4Q20. We estimate their losses to fall from Bt70m in 2020 to Bt31m in 2021F and turn a profit of Bt16m in 2022F. We expect CHG's new cancer center, due to open in 2022, to make just a Bt13m loss that year due to low investment of Bt250m, strong demand and limited supply in Samut Prakan. Meanwhile, the 100-bed Chularat Mae Sot International is targeted to open in mid-2023.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	5,433	6,671	6,811	7,392
Net profit	877	1,167	1,232	1,328
Consensus NP	—	1,126	1,184	1,255
Diff frm cons (%)	—	*3.7*	*4.1*	*5.8*
Norm profit	877	1,167	1,232	1,328
Prev. Norm profit	—	1,080	1,152	1,274
Chg frm prev (%)	—	*8.1*	*7.0*	*4.3*
Norm EPS (Bt)	0.1	0.1	0.1	0.1
Norm EPS grw (%)	24.3	33.1	5.6	7.8
Norm PE (x)	43.7	32.8	31.1	28.8
EV/EBITDA (x)	26.9	24.9	23.7	20.9
P/BV (x)	9.5	8.5	7.8	7.2
Div yield (%)	1.4	2.1	2.3	2.4
ROE (%)	22.7	27.4	26.2	26.0
Net D/E (%)	12.7	6.4	1.0	(9.3)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 21-Jun-21 (Bt)	3.48
Market Cap (US$ m)	1,217.2
Listed Shares (m shares)	11,000.0
Free Float (%)	42.8
Avg Daily Turnover (US$ m)	9.1
12M Price H/L (Bt)	3.70/2.32
Sector	Health Care
Major Shareholder	Plussind Family 23.79%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Changes In Our Key Assumptions And Earnings Revisions

	2021F	2022F	2023F
Income from COVID-related services (Bt m)			
- New	784	150	44
- Old	477	0	0
- Change (%)	*64.3*	*n.a.*	*n.a.*
Excellence center/hospital management revenue (Bt m)			
- New	353	507	441
- Old	388	450	375
- Change (%)	*(8.9)*	*12.7*	*17.7*
Normalized profit (Bt m)			
- New	1,167	1,232	1,328
- Old	1,080	1,152	1,274
- Change (%)	*8.1*	*7.0*	*4.3*

Source: Thanachart estimates

Note: * We cut hospital management revenue in 2021F due to slower-than-expected revenue recognition for Pattaya City Hospital by around half a month

Ex 2: Samut Prakarn Hospital

Source: Company data

Ex 3: Pattaya City Hospital

Source: Company data

Ex 4: Sirindhorn Hospital

Source: Company data

Ex 5: Sirindhorn Hospital – Hearth Center

Source: Company data

Ex 6: 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	1,606	1,791	2,090	2,260	2,446	2,644	2,856	3,073	3,299	3,532	3,783	—
Free cash flow	1,156	1,506	1,538	1,695	1,835	1,995	2,166	2,343	2,526	2,715	2,917	62,642
PV of free cash flow	1,152	1,334	1,282	1,305	1,323	1,348	1,371	1,389	1,403	1,412	1,422	30,526

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.6
WACC (%)	6.3
Terminal growth (%)	2.0
Enterprise value	**45,267**
Net debt (end-2021F)	301
Minority interest	160
Equity value	45,272
# of shares (m)	11,000
Equity value / share (Bt)	**4.10**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 7: 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**

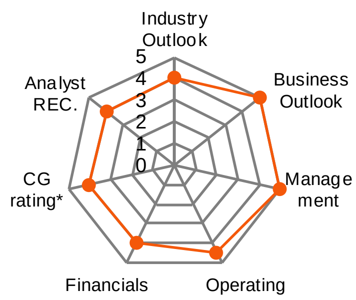
Source: Bloomberg
Note: * Thanachart estimates, using Thanachart normalized EPS
Based on 21 June 2021 closing prices

COMPANY DESCRIPTION

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

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

- 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.

W — Weakness

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

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

T — Threat

- Growing importance of franchise names and big players such as Bangkok Dusit Medical Services (BDMS TB, Bt22.70, BUY), which have entered the mid-market segment.
- Regulatory risk.
- COVID-19 impact.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	3.87	4.10	6%
Net profit 21F (Bt m)	1,126	1,167	4%
Net profit 22F (Bt m)	1,184	1,232	4%
Consensus REC	**BUY: 16**	**HOLD: 3**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimates and TP are above the Bloomberg consensus numbers, likely as we have a more bullish view on CHG's core operations.

Sources: Bloomberg consensus, Thanachart estimates

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

COVID-related services and core hospital business drive growth

New hospital in Tak province due to open in 2023

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	5,166	5,433	6,671	6,811	7,392
Cost of sales	3,629	3,685	4,756	4,781	5,133
Gross profit	**1,536**	**1,748**	**1,915**	**2,030**	**2,259**
% gross margin	29.7%	32.2%	28.7%	29.8%	30.6%
Selling & administration expenses	672	673	735	792	847
Operating profit	**864**	**1,075**	**1,181**	**1,238**	**1,412**
% operating margin	16.7%	19.8%	17.7%	18.2%	19.1%
Depreciation & amortization	343	370	372	383	392
EBITDA	**1,207**	**1,445**	**1,552**	**1,620**	**1,804**
% EBITDA margin	23.4%	26.6%	23.3%	23.8%	24.4%
Non-operating income	25	32	292	317	257
Non-operating expenses	0	0	0	0	0
Interest expense	(40)	(36)	(24)	(17)	(10)
Pre-tax profit	**849**	**1,071**	**1,448**	**1,537**	**1,660**
Income tax	184	219	290	298	315
After-tax profit	**665**	**852**	**1,159**	**1,239**	**1,345**
% net margin	12.9%	15.7%	17.4%	18.2%	18.2%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	41	24	9	(7)	(16)
Extraordinary items	0	0	0	0	0
NET PROFIT	**705**	**877**	**1,167**	**1,232**	**1,328**
Normalized profit	**705**	**877**	**1,167**	**1,232**	**1,328**
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

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	1,764	1,763	1,881	1,908	2,231
Cash & cash equivalent	521	580	432	432	632
Account receivables	1,058	983	1,188	1,213	1,316
Inventories	161	179	235	236	253
Others	25	22	27	27	30
Investments & loans	0	0	0	0	0
Net fixed assets	4,335	4,167	4,311	4,442	4,263
Other assets	167	271	306	302	316
Total assets	**6,266**	**6,201**	**6,498**	**6,652**	**6,810**
LIABILITIES:					
Current liabilities:	1,682	1,429	1,369	1,219	1,050
Account payables	607	570	730	734	788
Bank overdraft & ST loans	820	570	381	250	63
Current LT debt	146	136	88	58	15
Others current liabilities	109	153	170	177	185
Total LT debt	**573**	**407**	**264**	**173**	**44**
Others LT liabilities	115	171	197	193	201
Total liabilities	**2,370**	**2,008**	**1,830**	**1,585**	**1,295**
Minority interest	193	169	160	167	183
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**	**2,262**	**2,655**	**3,087**
Shareholders' equity	3,702	4,024	4,508	4,901	5,333
Liabilities & equity	**6,266**	**6,201**	**6,498**	**6,652**	**6,810**

Sources: Company data, Thanachart estimates

Strong cash inflow stream, on our estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	849	1,071	1,448	1,537	1,660
Tax paid	(158)	(193)	(281)	(289)	(309)
Depreciation & amortization	343	370	372	383	392
Chg In w orking capital	(103)	20	(101)	(22)	(67)
Chg In other CA & CL / minorities	37	20	3	(4)	(1)
Cash flow from operations	**968**	**1,288**	**1,440**	**1,605**	**1,674**
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	(18)	(8)	(14)
Cash flow from investments	**(687)**	**(250)**	**(523)**	**(513)**	**(219)**
Debt financing	312	(426)	(381)	(252)	(359)
Capital increase	0	0	0	0	0
Dividends paid	(550)	(550)	(684)	(840)	(896)
Warrants & other surplus	(16)	(5)	0	0	0
Cash flow from financing	**(254)**	**(980)**	**(1,064)**	**(1,092)**	**(1,256)**
Free cash flow	**235**	**1,103**	**940**	**1,105**	**1,474**

Inexpensive valuation, in our view

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	54.3	43.7	32.8	31.1	28.8
Normalized PE - at target price (x)	64.0	51.4	38.6	36.6	34.0
PE (x)	54.3	43.7	32.8	31.1	28.8
PE - at target price (x)	64.0	51.4	38.6	36.6	34.0
EV/EBITDA (x)	32.6	26.9	24.9	23.7	20.9
EV/EBITDA - at target price (x)	38.2	31.6	29.3	27.9	24.7
P/BV (x)	10.3	9.5	8.5	7.8	7.2
P/BV - at target price (x)	12.2	11.2	10.0	9.2	8.5
P/CFO (x)	39.5	29.7	26.6	23.9	22.9
Price/sales (x)	7.4	7.0	5.7	5.6	5.2
Dividend yield (%)	1.4	1.4	2.1	2.3	2.4
FCF Yield (%)	0.6	2.9	2.5	2.9	3.9
(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	0.4	0.5
CFO/share	0.1	0.1	0.1	0.1	0.2
FCF/share	0.0	0.1	0.1	0.1	0.1

Sources: Company data, Thanachart estimates

Growth in core operation helps to offset falling COVID-related revenue

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	17.2	5.2	22.8	2.1	8.5
Net profit (%)	11.3	24.3	33.1	5.6	7.8
EPS (%)	11.3	24.3	33.1	5.6	7.8
Normalized profit (%)	11.3	24.3	33.1	5.6	7.8
Normalized EPS (%)	11.3	24.3	33.1	5.6	7.8
Dividend payout ratio (%)	78.0	62.7	70.0	70.0	70.0
Operating performance					
Gross margin (%)	29.7	32.2	28.7	29.8	30.6
Operating margin (%)	16.7	19.8	17.7	18.2	19.1
EBITDA margin (%)	23.4	26.6	23.3	23.8	24.4
Net margin (%)	12.9	15.7	17.4	18.2	18.2
D/E (incl. minor) (x)	0.4	0.3	0.2	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	48.5	71.5	147.3
Interest coverage - EBITDA (x)	29.8	40.5	63.7	93.6	188.1
ROA - using norm profit (%)	11.8	14.1	18.4	18.7	19.7
ROE - using norm profit (%)	19.4	22.7	27.4	26.2	26.0
DuPont					
ROE - using after tax profit (%)	18.3	22.1	27.2	26.3	26.3
- asset turnover (x)	0.9	0.9	1.1	1.0	1.1
- operating margin (%)	17.2	20.4	22.1	22.8	22.6
- leverage (x)	1.6	1.6	1.5	1.4	1.3
- interest burden (%)	95.5	96.8	98.3	98.9	99.4
- tax burden (%)	78.3	79.6	80.0	80.6	81.0
WACC (%)	6.3	6.3	6.3	6.3	6.3
ROIC (%)	15.7	18.1	20.7	20.7	23.1
NOPAT (Bt m)	677	856	944	998	1,144
invested capital (Bt m)	4,720	4,558	4,809	4,949	4,822

Sources: Company data, Thanachart estimates

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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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