

BUY (Unchanged)

Change in Numbers

TP: Bt 4.80

Upside : 27.0%

(Unchanged)

24 AUGUST 2021

Small Cap Research

Chularat Hospital Pcl (CHG TB)

A bigger, lasting windfall

CHG's 2Q21 profit was far stronger than we had expected due to COVID services. With a jump in COVID capacity and a new large-sized field hospital, we expect 3Q21F earnings to nearly double q-q. We raise our earnings by 75% this year and 11% next year. Reaffirm BUY.

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Boosting our earnings

CHG's 2Q21 earnings came in far stronger than we had expected at Bt576m, up 272% y-y and 129% q-q. COVID-19 service revenue (38% of the total) beat our expectation but not as much as the margin from it. Together with a COVID-19 capacity boost and a new contract to manage an excellence center, we raise our earnings by 75% in 2021F and 11% in 2022F. We only fine-tune up our numbers from 2023F onwards. We leave our DCF-based 12-month TP, using a 2022F base year, at Bt4.8, but reaffirm our BUY call. Valuation wise, CHG looks inexpensive to us at 26.4x PE in 2022F, vs. its five-year pre-COVID-19 average of 41.3x.

Adding more COVID-bed capacity

Severe and critical COVID-19 patient cases in Thailand stand at 5,200 cases at present with 1,100 of those requiring ventilators. These numbers are still on an uptrend given new daily cases of c.20,000. CHG's 600 COVID hospital beds (80% of total beds) for severe cases and 4,000 hospital-cum-hotel (hospital) beds for mild cases were fully utilized in July. With overwhelming demand, CHG has raised its hospital bed capacity to 7,000+ since mid-August, when utilization reached 80%. It is planning to double high-complexity beds by opting for a field hospital model early next month. We estimate COVID earnings contributions of Bt1.5bn, Bt407m and Bt114m during 2021F-23F, respectively.

Pent-up non-COVID revenue

We forecast non-COVID cash-patient revenue to fall by 4% (9% drop from 2019) and social security (SS) revenue to come in flat this year. As we anticipate the severity of the COVID situation to subside from next year, we expect pent-up hospital visits and treatments to push up non-COVID cash-patient revenue by 19% and 17% and SS revenue by 7% p.a. in 2022-23F.

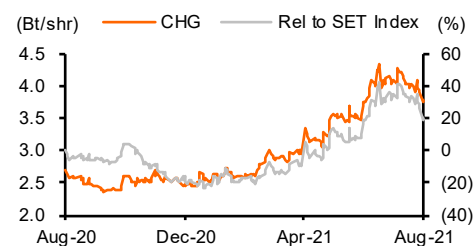
New heart-center management deal

CHG has two management contracts to run heart centers at Sirindhorn Hospital (three-year contract lasting until 2023) and Samutprakarn Hospital (three-year contract to 2023) and two hospital management contracts to run Pattaya City Hospital (three years to 2023) and the International Medical Center And Emergency Services (two years to 2022). CHG has just signed a new one-year contract with Rayong Hospital to manage a heart center for a total value of Bt160m, starting in December this year. CHG is also negotiating to extend the contract beyond one year. Meanwhile, it is looking at other deals. We estimate hospital and heart-center management revenue of Bt312m, Bt667m and Bt441m over 2021-23F.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	5,433	9,241	7,503	7,251
Net profit	877	2,421	1,577	1,426
Consensus NP	—	1,662	1,280	1,340
Diff frm cons (%)	—	45.7	23.2	6.4
Norm profit	877	2,421	1,577	1,426
Prev. Norm profit	—	1,383	1,419	1,412
Chg frm prev (%)	—	75.0	11.2	1.0
Norm EPS (Bt)	0.1	0.2	0.1	0.1
Norm EPS grw (%)	24.3	176.2	(34.9)	(9.6)
Norm PE (x)	47.4	17.2	26.4	29.2
EV/EBITDA (x)	29.1	13.4	20.1	21.1
P/BV (x)	10.3	7.8	7.6	7.1
Div yield (%)	1.3	4.1	2.7	2.4
ROE (%)	22.7	51.8	29.1	25.1
Net D/E (%)	12.7	(2.5)	(8.1)	(17.8)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 24-Aug-21 (Bt)	3.78
Market Cap (US\$ m)	1,262.7
Listed Shares (m shares)	11,000.0
Free Float (%)	42.8
Avg Daily Turnover (US\$ m)	18.4
12M Price H/L (Bt)	4.34/2.36
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

	2019	2020	2021F	2022F	2023F
Revenue from COVID-related services (Bt m)					
- New	—	82	3,974	1,161	301
- Old	—	—	1,769	892	300
- Change (%)	—	—	124.6	30.2	0.5
Excellence center/hospital management revenue (Bt m)					
- New	—	—	312	667	441
- Old	—	—	312	507	441
- Change (%)	—	—	—	31.5	—
Normalized profit (Bt m)					
- New	705	877	2,421	1,577	1,426
- Old	—	—	1,383	1,419	1,412
- Change (%)	—	—	75.0	11.2	1.0

Sources: Company data, Thanachart estimates

Note: * CHG is negotiating to extend the contract term for managing the heart center at Rayong Hospital from one to three years. If the deal is struck, we estimate this would add revenue to our 2023F forecast.

Ex 2: Hospital Management Service



Source: Company data

Ex 3: Heart Center @ Sirindhorn Hospital



Source: Company data

Ex 4: Heart Center @ Samutprakarn Hospital



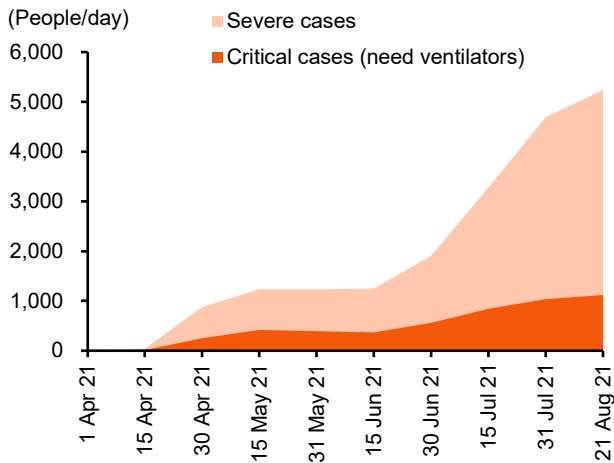
Source: Company data

Ex 5: Heart Center @ Rayong Hospital



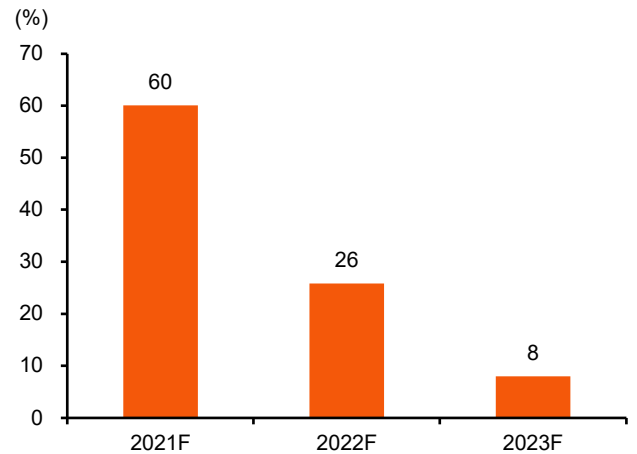
Source: Company data

Ex 6: Rising Number Of Severe Cases



Source: Ministry of Health

Ex 7: Earnings Contribution From COVID-19 Services



Source: Thanachart estimates

Ex 8: 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	2,028	1,907	2,087	2,293	2,497	2,714	2,946	3,180	3,423	3,676	3,948	—
Free cash flow	1,783	1,732	1,582	1,758	1,908	2,085	2,272	2,463	2,658	2,862	3,081	72,073
PV of free cash flow	1,778	1,545	1,333	1,374	1,402	1,440	1,475	1,504	1,526	1,545	1,563	36,565
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.6											
WACC (%)	5.9											
Terminal growth (%)	2.0											
Enterprise value	53,050											
Net debt (end-2021F)	(139)											
Minority interest	166											
Equity value	53,023											
# of shares (m)	11,000											
Equity value / share (Bt)	4.80											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 9: 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	11,083	21.1	25.9	32.2	25.6	3.7	3.5	11.4	10.4	1.7	2.1
Guangzhou Pharmaceutical	874 HK	Hong Kong	7,113	16.3	8.7	9.6	8.8	1.1	1.0	8.0	8.0	2.2	2.3
Lijun Int'l Pharmaceutical	2005 HK	Hong Kong	2,063	34.7	22.4	13.5	11.1	2.5	2.2	9.8	8.2	2.8	3.4
Apollo Hospitals Enterprise	APHS IN	India	9,384	na	847.9	810.9	85.5	16.5	12.8	63.4	34.5	0.1	0.2
Fortis Healthcare India	FORH IN	India	2,861	na	na	na	63.5	3.2	3.2	55.0	21.9	0.0	0.0
KPJ Healthcare	KPJ MK	Malaysia	1,077	(10.3)	57.7	40.8	25.9	2.0	1.9	13.6	11.6	1.2	2.0
IHH Healthcare Bhd	IHH MK	Malaysia	12,093	98.4	23.2	46.5	37.7	2.2	2.1	17.9	15.9	0.8	1.0
Ryman	RYM NZ	New Zealand	5,177	(7.6)	29.0	32.1	24.9	2.9	2.3	35.5	25.4	1.5	1.9
Raffles Medical Group	RFMD SP	Singapore	1,914	65.2	5.3	36.6	34.8	2.8	2.7	20.2	18.8	2.0	1.8
Bangkok Chain Hospital *	BCH TB	Thailand	1,742	150.3	(32.9)	18.6	27.8	6.5	6.1	13.1	19.9	3.0	2.0
Bangkok Dusit Medical *	BDMS TB	Thailand	11,100	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	3,197	0.5	57.9	87.4	55.3	5.9	5.8	39.2	28.7	1.1	1.8
Chularat Hospital *	CHG TB	Thailand	1,263	176.2	(34.9)	17.2	26.4	7.8	7.6	13.4	20.1	4.1	2.7
Ladprao General Hospital *	LPH TB	Thailand	141	49.6	(13.0)	20.9	24.0	3.0	2.9	11.6	12.4	3.8	3.3
Praram 9 Hospital *	PR9 TB	Thailand	239	3.9	20.0	37.4	31.2	1.9	1.8	13.8	12.1	1.2	1.4
Rajthanee Hospital *	RJH TB	Thailand	312	76.6	(21.5)	15.7	20.0	5.9	5.8	10.9	13.4	5.1	4.0
Ratchaphruek Hospital *	RPH TB	Thailand	104	13.0	18.2	32.4	27.4	2.5	2.4	17.0	15.3	2.3	2.8
Thonburi Healthcare Group*	THG TB	Thailand	774	na	123.4	164.8	73.8	3.3	3.2	26.4	22.3	0.4	0.9
Average				46.9	67.9	86.4	36.0	4.3	3.9	22.7	18.0	1.9	1.9

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

Based on 24 Aug 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.

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

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, Bt23.00, BUY), which have entered the mid-market segment.
- Regulatory risk.
- COVID-19's rising infections

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	4.44	4.80	8%
Net profit 21F (Bt m)	1,662	2,421	46%
Net profit 22F (Bt m)	1,280	1,577	23%
Consensus REC	BUY: 13	HOLD: 6	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings and DCF-based TP are above the Bloomberg consensus numbers, which we attribute to us having a more bullish view on CHG's income contributions from COVID-19 and non-COVID-19 services.

Sources: Bloomberg1rg 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

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	5,166	5,433	9,241	7,503	7,251
Cost of sales	3,629	3,685	5,583	5,038	4,922
Gross profit	1,536	1,748	3,658	2,465	2,329
% gross margin	29.7%	32.2%	39.6%	32.9%	32.1%
Selling & administration expenses	672	673	929	808	819
Operating profit	864	1,075	2,729	1,657	1,510
% operating margin	16.7%	19.8%	29.5%	22.1%	20.8%
Depreciation & amortization	343	370	373	385	409
EBITDA	1,207	1,445	3,102	2,042	1,920
% EBITDA margin	23.4%	26.6%	33.6%	27.2%	26.5%
Non-operating income	25	32	313	336	277
Non-operating expenses	0	0	0	0	0
Interest expense	(40)	(36)	(19)	(6)	(2)
Pre-tax profit	849	1,071	3,023	1,987	1,786
Income tax	184	219	605	397	339
After-tax profit	665	852	2,419	1,590	1,446
% net margin	12.9%	15.7%	26.2%	21.2%	19.9%
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	2,421	1,577	1,426
Normalized profit	705	877	2,421	1,577	1,426
EPS (Bt)	0.1	0.1	0.2	0.1	0.1
Normalized EPS (Bt)	0.1	0.1	0.2	0.1	0.1

2021F earnings are driven by COVID-19 treatment and tests

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	1,764	1,763	2,415	2,117	2,668
Cash & cash equivalent	521	580	432	482	1,092
Account receivables	1,058	983	1,671	1,357	1,311
Inventories	161	179	275	248	236
Others	25	22	37	30	29
Investments & loans	0	0	0	0	0
Net fixed assets	4,335	4,167	4,359	4,488	4,292
Other assets	167	271	401	328	310
Total assets	6,266	6,201	7,175	6,933	7,270
LIABILITIES:					
Current liabilities:	1,682	1,429	1,325	1,036	995
Account payables	607	570	918	828	809
Bank overdraft & ST loans	820	570	152	13	4
Current LT debt	146	136	35	3	1
Others current liabilities	109	153	220	192	181
Total LT debt	573	407	106	9	3
Others LT liabilities	115	171	255	209	197
Total liabilities	2,370	2,008	1,686	1,253	1,196
Minority interest	193	169	166	179	199
Preferred 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	3,077	3,255	3,630
Shareholders' equity	3,702	4,024	5,323	5,501	5,876
Liabilities & equity	6,266	6,201	7,175	6,933	7,270

New cancer center and hospital due to be operational in 2022-23

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

Strong and sustainable cash inflow streams

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	849	1,071	3,023	1,987	1,786
Tax paid	(158)	(193)	(556)	(417)	(347)
Depreciation & amortization	343	370	373	385	409
Chg In working capital	(103)	20	(437)	252	39
Chg In other CA & CL / minorities	37	20	2	(2)	(2)
Cash flow from operations	968	1,288	2,405	2,205	1,884
Capex	(733)	(186)	(550)	(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	(55)	18	(2)
Cash flow from investments	(687)	(250)	(610)	(487)	(207)
Debt financing	312	(426)	(820)	(269)	(16)
Capital increase	0	0	0	0	0
Dividends paid	(550)	(550)	(1,122)	(1,399)	(1,051)
Warrants & other surplus	(16)	(5)	0	0	0
Cash flow from financing	(254)	(980)	(1,943)	(1,668)	(1,067)
Free cash flow	235	1,103	1,855	1,705	1,684

VALUATION

Inexpensive valuation, in our view

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	59.0	47.4	17.2	26.4	29.2
Normalized PE - at target price (x)	74.9	60.2	21.8	33.5	37.0
PE (x)	59.0	47.4	17.2	26.4	29.2
PE - at target price (x)	74.9	60.2	21.8	33.5	37.0
EV/EBITDA (x)	35.3	29.1	13.4	20.1	21.1
EV/EBITDA - at target price (x)	44.6	36.9	17.0	25.6	26.9
P/BV (x)	11.2	10.3	7.8	7.6	7.1
P/BV - at target price (x)	14.3	13.1	9.9	9.6	9.0
P/CFO (x)	42.9	32.3	17.3	18.9	22.1
Price/sales (x)	8.0	7.7	4.5	5.5	5.7
Dividend yield (%)	1.3	1.3	4.1	2.7	2.4
FCF Yield (%)	0.6	2.7	4.5	4.1	4.1
(Bt)					
Normalized EPS	0.1	0.1	0.2	0.1	0.1
EPS	0.1	0.1	0.2	0.1	0.1
DPS	0.1	0.1	0.2	0.1	0.1
BV/share	0.3	0.4	0.5	0.5	0.5
CFO/share	0.1	0.1	0.2	0.2	0.2
FCF/share	0.0	0.1	0.2	0.2	0.2

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

**Strong-profitability
company**

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	17.2	5.2	70.1	(18.8)	(3.4)
Net profit (%)	11.3	24.3	176.2	(34.9)	(9.6)
EPS (%)	11.3	24.3	176.2	(34.9)	(9.6)
Normalized profit (%)	11.3	24.3	176.2	(34.9)	(9.6)
Normalized EPS (%)	11.3	24.3	176.2	(34.9)	(9.6)
Dividend payout ratio (%)	78.0	62.7	70.0	70.0	70.0
Operating performance					
Gross margin (%)	29.7	32.2	39.6	32.9	32.1
Operating margin (%)	16.7	19.8	29.5	22.1	20.8
EBITDA margin (%)	23.4	26.6	33.6	27.2	26.5
Net margin (%)	12.9	15.7	26.2	21.2	19.9
D/E (incl. minor) (x)	0.4	0.3	0.1	0.0	0.0
Net D/E (incl. minor) (x)	0.3	0.1	(0.0)	(0.1)	(0.2)
Interest coverage - EBIT (x)	21.4	30.2	144.2	295.6	na
Interest coverage - EBITDA (x)	29.8	40.5	163.9	364.3	na
ROA - using norm profit (%)	11.8	14.1	36.2	22.4	20.1
ROE - using norm profit (%)	19.4	22.7	51.8	29.1	25.1
DuPont					
ROE - using after tax profit (%)	18.3	22.1	51.7	29.4	25.4
- asset turnover (x)	0.9	0.9	1.4	1.1	1.0
- operating margin (%)	17.2	20.4	32.9	26.6	24.6
- leverage (x)	1.6	1.6	1.4	1.3	1.2
- interest burden (%)	95.5	96.8	99.4	99.7	99.9
- tax burden (%)	78.3	79.6	80.0	80.0	81.0
WACC (%)	5.9	5.9	5.9	5.9	5.9
ROIC (%)	15.7	18.1	47.9	25.6	24.3
NOPAT (Bt m)	677	856	2,183	1,325	1,223
invested capital (Bt m)	4,720	4,558	5,184	5,043	4,792

Sources: Company data, Thanachart estimates

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