Small Cap Research

HOLD (Unchanged) | **TP: Bt 32.00** | (From: Bt 27.50)

Change in Numbers | **Upside : 1.6%** | **2 JULY 2021**

Rajthanee Hospital Pcl. (RJH TB)

Flat growth

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Thanachart Securities

We maintain our HOLD call on RJH despite lifting our TP to Bt32.0 after rolling over to 2022F base year. This is due to a relatively cheap PE of 20.3x in 2022F and 4% dividend yields in 2021-22F. However, we expect earnings growth over the next two years to be less exciting.

HOLD on cheap valuation with no growth

We maintain our HOLD call on RJH despite rolling over our valuation base year to 2022F to derive a new DCF-based 12-month TP of Bt32.0 from Bt27.5. This is because of what we see as a cheap valuation relative to the healthcare sector at 20.3x PE and a 4% dividend yield in 2022F. As for earnings, we foresee a less exciting 1% decline in 2022F and 5% growth in 2023F after one-time revenue recognition from the Social Security Scheme (SSS) of Bt25m and COVID-driven growth of 27% in 2021F. We expect improvement in cash patients for non-COVID illnesses, but the rising number of registered patients may not be sufficient to offset falling revenue from COVID-related services next year. Note that RJH does not have exposure to foreign patients.

COVID income offsets its negative impact

We estimate RJH to earn COVID-related revenue (COVID-19 tests and vaccination) of Bt229m, or 10% of total revenue this year. Meanwhile, revenue from COVID patient admissions should also be enough to offset falling revenue from weak non-COVID cash patients. RJH provides COVID-19 tests and has allocated 100 beds in Rajthanee Hospital and Rajthanee Rojana Hospital (vs. 292 total active beds) to COVID-19 patients presently. RJH's COVID-19 swab tests almost reached 500 people/day in April and declined to below 100 people in early June before ramping up to 200-500 people/day in mid-June. RJH doesn't provide hospital-cum-hotel (hospitel) and Alternative State Quarantine services.

Cash vs. social security

We project cash patient revenue to rise by 27%, 1% and 6% in 2021-23F and SSS revenue to grow 11%, 1% and 4.5% in those years. Drivers of cash-patient revenue growth are rising number of COVID-19 patients in 2021F and improving non-COVID cash patients in 2022F-23F. The SSS revenue driver is more SSS-registered persons. RJH continues to gain share in the SSS market in Ayutthaya. Its SSS-registered persons increased to 195.8k in 1Q21 vs. 193.7k in 2020, bringing its share in Ayutthaya up to 54.4% in 1Q21 from 53.7% in 2020. We estimate RJH's SSS-registered persons to grow by 1%, 3% and 4% in 2021-23F.

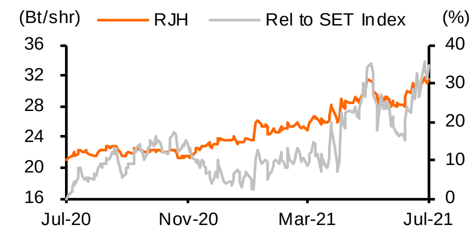
Two new projects delayed

The timeline for two new hospitals has been delayed. The 120-bed Rajthanee Nongkhae Hospital, in Saraburi province, is being postponed because of a hold-up in the EIA application process. Meanwhile, the size of its 120-bed Rajthanee II Hospital, planned to be located near its main Ayutthaya campus, is being reviewed. A study is also under way to see if the project should be an excellence center. We still factor these two projects into our model without a project size change but delay the opening schedule for both from 2Q23 and mid-2023 to early 2024.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	1,855	2,285	2,196	2,247
Net profit	412	472	466	490
Consensus NP	—	425	425	408
Diff frm cons (%)	—	*11.2*	*9.6*	*20.2*
Norm profit	371	472	466	490
Prev. Norm profit	—	428	447	452
Chg frm prev (%)	—	*10.2*	*4.3*	*8.5*
Norm EPS (Bt)	1.2	1.6	1.6	1.6
Norm EPS grw (%)	17.2	27.2	(1.3)	5.2
Norm PE (x)	25.5	20.0	20.3	19.3
EV/EBITDA (x)	17.5	13.2	13.4	13.1
P/BV (x)	6.3	5.8	5.5	5.2
Div yield (%)	3.2	4.0	3.9	4.1
ROE (%)	25.7	30.2	27.8	27.6
Net D/E (%)	0.8	(8.1)	(6.1)	8.5

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 2-Jul-21 (Bt)	31.50
Market Cap (US$ m)	293.4
Listed Shares (m shares)	300.0
Free Float (%)	61.3
Avg Daily Turnover (US$ m)	0.5
12M Price H/L (Bt)	31.75/21.10
Sector	Health Care
Major Shareholder	Prasithirun family 22.97%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Changes In Key Assumptions And Earnings Revisions

	2021F	2022F	2023F*
Revenue from COVID-19 testing (Bt m)			
- New	229	111	57
- Old	85	–	–
- Change (%)	*170.3*	*n.a.*	*n.a.*
Normalized profit (Bt m)			
- New	472	466	490
- Old	428	447	452
- Change (%)	*10.2*	*4.3*	*8.5*

Source: Thanachart estimates

Note: * We now assume RJH's two new greenfield projects to open in early 2024

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	699	731	712	770	849	916	995	1,074	1,150	1,233	1,333	—
Free cash flow	372	140	567	599	663	713	776	840	905	970	620	11,153
PV of free cash flow	371	123	467	454	469	470	478	483	485	463	275	4,947

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.6
WACC (%)	6.7
Terminal growth (%)	2.0
Enterprise value - add investments	9,484
Net debt (end-2021F)	(132)
Minority interest	6
Equity value	9,610
# of shares (m)	300
Equity value / share (Bt)	**32.00**

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	10,715	20.2	29.7	30.4	23.5	3.5	3.3	11.1	9.9	1.9	2.3
Guangzhou Pharmaceutical	874 HK	Hong Kong	8,524	16.5	8.7	11.4	10.5	1.4	1.2	10.4	9.5	1.4	1.4
Lijun Int'l Pharmaceutical	2005 HK	Hong Kong	2,817	36.8	19.6	18.2	15.2	3.4	2.9	12.9	11.0	2.1	2.5
Apollo Hospitals Enterprise	APHS IN	India	7,186	na	735.2	625.7	74.9	12.8	10.2	48.0	27.4	0.1	0.2
Fortis Healthcare India	FORH IN	India	2,516	na	na	na	59.4	2.8	2.8	49.3	21.7	0.0	0.0
KPJ Healthcare	KPJ MK	Malaysia	1,050	(10.3)	53.8	39.2	25.5	2.0	1.8	13.3	11.3	1.4	2.0
IHH Healthcare Bhd	IHH MK	Malaysia	11,831	90.5	25.8	46.8	37.2	2.1	2.0	17.4	15.6	0.7	0.9
Ryman	RYM NZ	New Zealand	4,771	(7.6)	30.1	29.5	22.7	2.7	2.2	33.3	25.7	1.7	2.1
Raffles Medical Group	RFMD SP	Singapore	1,589	43.5	12.1	34.8	31.1	2.3	2.3	18.3	16.6	2.2	2.0
Bangkok Chain Hospital *	BCH TB	Thailand	1,820	83.0	(29.9)	26.1	37.1	7.1	6.7	16.9	20.8	2.1	1.5
Bangkok Dusit Medical *	BDMS TB	Thailand	11,547	15.6	29.6	53.2	41.1	4.2	4.0	28.7	23.6	1.0	1.3
Bumrungrad Hospital *	BH TB	Thailand	3,158	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	1,394	33.1	5.6	38.5	36.4	10.0	9.2	29.1	27.7	1.8	1.9
Ladprao General Hospital *	LPH TB	Thailand	127	12.5	5.7	24.4	23.1	2.7	2.6	13.0	12.7	3.3	3.5
Praram 9 Hospital *	PR9 TB	Thailand	266	19.1	22.1	35.6	29.2	2.0	1.9	14.3	11.9	1.3	1.5
Rajthanee Hospital *	RJH TB	Thailand	293	27.2	(1.3)	20.0	20.3	5.8	5.5	13.2	13.4	4.0	3.9
Ratchaphruek Hospital *	RPH TB	Thailand	88	16.0	19.6	26.1	21.8	2.0	2.0	13.3	11.8	3.1	3.7
Thonburi Healthcare Group*	THG TB	Thailand	751	na	123.4	156.6	70.1	3.1	3.0	25.4	21.4	0.4	1.0
Average				**26.4**	**67.5**	**76.5**	**35.1**	**4.2**	**3.8**	**22.5**	**17.8**	**1.6**	**1.9**

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

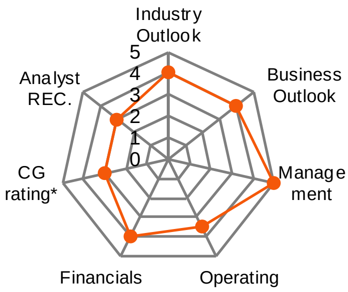
Based on 2 July 2021 closing prices

COMPANY DESCRIPTION

Rajthanee Hospital Pcl (RJH) operates a private hospital with 292 active beds under the “Rajthanee” brand in Thailand’s Ayutthaya province. The company was established in 1992. It also acquired a 52% stake in Rajthanee Rojana Hospital (RRH) in 2014. Presently, RJH provides medical treatment to cash patients and Social Security Scheme patients. RJH has expertise in emergency care, children’s care and orthopaedics. The company has increased its stake in RRH to 98% presently.

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

- The largest private hospital in Ayutthaya province with considerable experience and a reputable brand in managed-care scheme services.
- Hospitals in RJH’s portfolio are in prime locations (communities, factories and industrial estates).

W — Weakness

- Limited patient-base diversification as RJH 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.
- Rising patient flows from neighbouring countries.

T — Threat

- Growing importance of franchise names and big players such as Bangkok Dusit Medical Services (BDMS TB, Bt23.40, BUY), which have entered the mid-market segment.
- Rising competition from new non-listed rivals in Ayutthaya province.
- Regulatory risk.
- Covid-19 spread.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	31.80	32.00	1%
Net profit 21F (Bt m)	425	472	11%
Net profit 22F (Bt m)	425	466	10%
Consensus REC	**BUY: 1**	**HOLD: 5**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts and TP are higher than the Bloomberg consensus numbers, which we attribute to us having a more bullish view on COVID-19 benefits to RJH over the next two years.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- If RJH’s strategy of boosting revenue from the cash-patient business works or does not work out, this would present the key upside or downside risk to our call.
- Given RJH’s capacity expansion plans, its new buildings may turn profitable faster or slower than we currently expect if there is less or more competition from existing private healthcare operators or there are newcomers to the healthcare market in Thailand, representing a secondary upside or downside risk to our call.
- If the Adjusted Relative Weight (RW) under the SSS were to fall or increase, there could be downside or upside risk to our earnings projections.

Source: Thanachart

COVID-related services help to boost 2021F revenue

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	1,771	1,855	2,285	2,196	2,247
Cost of sales	1,213	1,262	1,554	1,482	1,504
Gross profit	**557**	**594**	**731**	**713**	**743**
% gross margin	31.5%	32.0%	32.0%	32.5%	33.1%
Selling & administration expenses	188	163	166	158	158
Operating profit	**369**	**431**	**566**	**556**	**584**
% operating margin	20.8%	23.2%	24.8%	25.3%	26.0%
Depreciation & amortization	90	109	139	143	147
EBITDA	**459**	**539**	**705**	**699**	**731**
% EBITDA margin	25.9%	29.1%	30.8%	31.8%	32.5%
Non-operating income	32	23	27	29	32
Non-operating expenses	0	0	0	0	0
Interest expense	(4)	(0)	(1)	(0)	(2)
Pre-tax profit	**397**	**453**	**592**	**584**	**614**
Income tax	80	81	118	117	123
After-tax profit	**318**	**372**	**473**	**467**	**491**
% net margin	17.9%	20.1%	20.7%	21.3%	21.9%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	(1)	(1)	(1)	(1)	(1)
Extraordinary items	79	41	0	0	0
NET PROFIT	**396**	**412**	**472**	**466**	**490**
Normalized profit	**317**	**371**	**472**	**466**	**490**
EPS (Bt)	1.3	1.4	1.6	1.6	1.6
Normalized EPS (Bt)	1.1	1.2	1.6	1.6	1.6

No new hospitals planned in 2021-23

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	576	441	605	557	497
Cash & cash equivalent	223	58	150	120	50
Account receivables	313	343	407	391	400
Inventories	31	36	43	41	41
Others	9	4	6	6	6
Investments & loans	10	0	0	0	0
Net fixed assets	967	1,272	1,236	1,345	1,701
Other assets	133	187	195	205	215
Total assets	**1,685**	**1,899**	**2,037**	**2,108**	**2,413**
LIABILITIES:					
Current liabilities:	225	340	331	314	509
Account payables	197	241	277	264	268
Bank overdraft & ST loans	0	70	18	15	206
Current LT debt	0	0	0	0	0
Others current liabilities	28	29	36	34	35
Total LT debt	**1**	**0**	**0**	**0**	**0**
Others LT liabilities	60	57	70	67	69
Total liabilities	**286**	**398**	**401**	**381**	**578**
Minority interest	4	5	6	6	8
Preferreds shares	0	0	0	0	0
Paid-up capital	300	300	300	300	300
Share premium	1,093	1,093	1,093	1,093	1,093
Warrants	0	0	0	0	0
Surplus	(354)	(354)	(354)	(354)	(354)
Retained earnings	**357**	**457**	**590**	**681**	**789**
Shareholders' equity	1,396	1,496	1,629	1,720	1,828
Liabilities & equity	**1,685**	**1,899**	**2,037**	**2,108**	**2,413**

Sources: Company data, Thanachart estimates

Sustainable cash inflow stream

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	397	453	592	584	614
Tax paid	(68)	(80)	(112)	(118)	(122)
Depreciation & amortization	90	109	139	143	147
Chg In w orking capital	(11)	9	(35)	5	(6)
Chg In other CA & CL / minorities	84	5	(2)	(2)	(2)
Cash flow from operations	**491**	**496**	**582**	**613**	**631**
Capex	(246)	(411)	(100)	(250)	(500)
Right of use	0	(1)	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	(10)	10	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	99	(16)	1	(15)	(9)
Cash flow from investments	**(157)**	**(419)**	**(99)**	**(265)**	**(509)**
Debt financing	(345)	70	(52)	(3)	190
Capital increase	0	0	(0)	0	0
Dividends paid	(300)	(315)	(339)	(375)	(382)
Warrants & other surplus	(6)	3	0	0	0
Cash flow from financing	**(650)**	**(243)**	**(391)**	**(378)**	**(192)**
Free cash flow	**245**	**85**	**482**	**363**	**131**

Trading at fair value, in our view

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	29.8	25.5	20.0	20.3	19.3
Normalized PE - at target price (x)	30.3	25.9	20.3	20.6	19.6
PE (x)	23.9	22.9	20.0	20.3	19.3
PE - at target price (x)	24.2	23.3	20.3	20.6	19.6
EV/EBITDA (x)	20.1	17.5	13.2	13.4	13.1
EV/EBITDA - at target price (x)	20.4	17.8	13.4	13.6	13.3
P/BV (x)	6.8	6.3	5.8	5.5	5.2
P/BV - at target price (x)	6.9	6.4	5.9	5.6	5.3
P/CFO (x)	19.2	19.0	16.2	15.4	15.0
Price/sales (x)	5.3	5.1	4.1	4.3	4.2
Dividend yield (%)	3.5	3.2	4.0	3.9	4.1
FCF Yield (%)	2.6	0.9	5.1	3.8	1.4
(Bt)					
Normalized EPS	1.1	1.2	1.6	1.6	1.6
EPS	1.3	1.4	1.6	1.6	1.6
DPS	1.1	1.0	1.3	1.2	1.3
BV/share	4.7	5.0	5.4	5.7	6.1
CFO/share	1.6	1.7	1.9	2.0	2.1
FCF/share	0.8	0.3	1.6	1.2	0.4

Sources: Company data, Thanachart estimates

Unexciting earnings growth in 2022-23F

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	11.6	4.8	23.1	(3.9)	2.3
Net profit (%)	55.5	4.2	14.4	(1.3)	5.2
EPS (%)	55.5	4.2	14.4	(1.3)	5.2
Normalized profit (%)	24.5	17.2	27.2	(1.3)	5.2
Normalized EPS (%)	24.5	17.2	27.2	(1.3)	5.2
Dividend payout ratio (%)	83.4	72.7	80.0	80.0	80.0
Operating performance					
Gross margin (%)	31.5	32.0	32.0	32.5	33.1
Operating margin (%)	20.8	23.2	24.8	25.3	26.0
EBITDA margin (%)	25.9	29.1	30.8	31.8	32.5
Net margin (%)	17.9	20.1	20.7	21.3	21.9
D/E (incl. minor) (x)	0.0	0.0	0.0	0.0	0.1
Net D/E (incl. minor) (x)	(0.2)	0.0	(0.1)	(0.1)	0.1
Interest coverage - EBIT (x)	85.1	na	425.3	na	302.3
Interest coverage - EBITDA (x)	105.8	na	na	na	378.2
ROA - using norm profit (%)	17.8	20.7	24.0	22.5	21.7
ROE - using norm profit (%)	23.5	25.7	30.2	27.8	27.6
DuPont					
ROE - using after tax profit (%)	23.5	25.8	30.3	27.9	27.7
- asset turnover (x)	1.0	1.0	1.2	1.1	1.0
- operating margin (%)	22.7	24.4	26.0	26.6	27.4
- leverage (x)	1.3	1.2	1.3	1.2	1.3
- interest burden (%)	98.9	99.9	99.8	100.0	99.7
- tax burden (%)	80.0	82.2	80.0	80.0	80.0
WACC (%)	6.7	6.7	6.7	6.7	6.7
ROIC (%)	26.6	30.2	30.0	29.7	28.9
NOPAT (Bt m)	295	354	453	444	468
invested capital (Bt m)	1,173	1,508	1,498	1,615	1,983

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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