BUY (Unchanged)

Change in Numbers

TP: Bt 7.20 (From: Bt 6.40)

Upside : 14.3%

24 AUGUST 2021

Small Cap Research

Ratchaphruek Hospital (RPH TB)

2H21F turnaround

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RPH reported weak 2Q21 results due to patients delaying hospital visits because of COVID. The hospital then changed its policy and is now offering COVID services. We expect 121% h-h earnings growth in 2H21 and mid-teens growth in 2022-23F. Maintain BUY.

Weak 2Q21 to be turn around in 2H21F

RPH reported earnings of Bt14m in 2Q21, up 289% y-y but down 26% q-q. The q-q drop was due to weak patient flows as a result of them delaying hospital visits because of COVID. Meanwhile, the y-y increase was a result of low base last year. RPH changed its policy in July to offer COVID services and we expect 21% y-y earnings growth in 2H21F. With the new COVID policy, we are only trimming our earnings by 3-4% in 2021-23F to reflect the weaker economic growth outlook. We roll over our valuation base year to 2022F and our DCF-based TP rises to Bt7.2 (from Bt6.4). We maintain our BUY on RPH as we see it offering sustainable mid-teens growth over the next two years.

COVID-19 services

RPH now offers COVID services in all three areas, i.e., swab tests, hospital and so-called hospital-cum-hotel (hospitel) beds, and vaccine services. It has swab-testing capacity of c.500 cases/day. It allocates 55 beds (from 171 active beds) for COVID patients which are running at 100% utilization along with 270 hospitel beds that are operating at 50%. Meanwhile, RPH has been allocated 22,560 Moderna vaccine doses (1% of the total of 3.9m doses to be distributed to private hospitals). We estimate RPH's revenue contribution from COVID-related services of 31%, 20% and 7% in 2021-23F.

Impact on non-COVID patients

RPH is a pure cash-patient hospital with no managed-care services in Khon Kaen province. Its revenue declined by 4% q-q in 2Q21 due to the COVID-19 effect. We expect the hospital's participation in providing COVID services to lead to a more negative impact on non-COVID patients because of them putting off visits. We estimate a further 3% drop in patients in 2021F after an 8% decline in 2020. We, however, do not expect RPH to lose market share to other hospitals over the long term given its strong brand and it being the only private hospital in the mid-tier market in Khon Kaen. We project a cash-patient volume recovery of 4% in 2022F and 9% in 2023F.

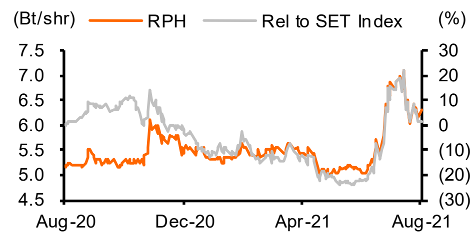
15% three-year EPS CAGR

We estimate RPH to be able to sustain its mid-teens earnings growth momentum at 13%, 18% and 13% in 2021-23F. The key driver for 2021F is rising revenue from COVID-related services that should more than offset lower non-COVID revenues, which we estimate to fall by 2% in 2021F. 2022-23F earnings growth drivers should comprise rising revenue from non-COVID patients of 9% and 15%, respectively and operating margin expanding to 14.2% in 2022F and 15.4% in 2023F from 12.4% in 2021F on the back of higher utilization levels.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	799	930	939	1,002
Net profit	94	106	125	141
Consensus NP	—	113	130	na
Diff frm cons (%)	—	*(6.2)*	*(3.6)*	*na*
Norm profit	94	106	125	141
Prev. Norm profit	—	109	130	147
Chg frm prev (%)	—	*(2.6)*	*(3.8)*	*(3.8)*
Norm EPS (Bt)	0.2	0.2	0.2	0.3
Norm EPS grw (%)	(2.7)	13.0	18.2	12.5
Norm PE (x)	36.7	32.4	27.4	24.4
EV/EBITDA (x)	17.9	17.0	15.3	13.7
P/BV (x)	2.5	2.5	2.4	2.4
Div yield (%)	2.1	2.3	2.8	3.1
ROE (%)	7.0	7.7	8.9	9.8
Net D/E (%)	11.0	3.1	(4.1)	(11.1)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 24-Aug-21 (Bt)	6.30
Market Cap (US$ m)	104.5
Listed Shares (m shares)	546.0
Free Float (%)	69.5
Avg Daily Turnover (US$ m)	0.6
12M Price H/L (Bt)	7.10/4.98
Sector	Health Care
Major Shareholder	Khun Teerawat Srinakarin 11.7%

Sources: Bloomberg, Company data, Thanachart estimates

Thanachart Securities

Ex 1: Changes In Our Key Assumptions And Earnings Revisions

	2019	2020	2021F	2022F	2023F
% growth for OPD patients					
- New	19.5	(7.2)	(2.0)	4.0	9.0
- Old	—	—	5.0	4.0	3.0
- Change (pp)	—	—	*(7.0)*	—	*6.0*
% growth for IPD patients					
- New	49.5	(9.9)	(5.0)	5.0	10.0
- Old	—	—	20.0	10.0	6.0
- Change (pp)	—	—	*(25.0)*	*(5.0)*	*4.0*
Revenue from COVID-related services (Bt m)					
- New	—	—	155	100	32
- Old	—	—	—	—	—
- Change (%)	—	—	—	—	—
Gross margin (%)					
- New	30.0	29.1	27.9	29.6	30.6
- Old	—	—	29.6	30.4	30.6
- Change (pp)	—	—	*(1.7)*	*(0.7)*	—
SG&A to sales (%)					
- New	15.7	15.2	15.5	15.4	15.2
- Old	—	—	14.7	14.4	14.1
- Change (pp)	—	—	*0.8*	*1.0*	*1.1*
Normalized profit (Bt m)					
- New	96	94	106	125	141
- Old	—	—	109	130	147
- Change (%)	—	—	*(2.6)*	*(3.8)*	*(3.8)*

Sources: Company data, Thanachart estimates

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	219	237	263	284	299	315	332	350	370	391	419	—
Free cash flow	196	208	229	246	258	271	285	300	316	333	257	4,627
PV of free cash flow	195	183	189	186	183	179	175	172	169	159	114	2,053

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.6
WACC (%)	6.7
Terminal growth (%)	2.0
Enterprise value - add investments	3,958
Net debt (end 2021F)	44
Minority interest	0
Equity value	3,914
# of shares (m)	546
Equity value / share (Bt)	**7.20**

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	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

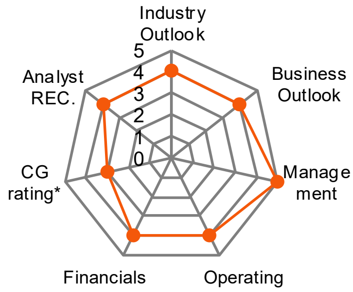
Based on 24 Aug 2021 closing prices

COMPANY DESCRIPTION

Ratchaphruek Hospital Pcl (RPH) operates a private hospital under the “Ratchaphruek” brand in Khon Kaen province in the Northeast of Thailand. The company was established in 1993 by a group of doctors from the medical school at Khon Kaen University including Dr. Teerawat Srinakarin, Dr. Vallop Laopaiboon and Dr. Vinai Tantiyasawasdikul, who are now the major shareholders of RPH. The hospital has high levels of expertise and it operates a Women’s Center, Surgical Clinics (General Surgery, Orthopedic and Urological Surgery), Internal Medicine Center, Children’s Center, and an Ear Nose and Throat Center, etc.

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

- Very strong “Ratchaphruek” brand in Khon Kaen province.
- Owners and the company executives have strong relationships with doctors and professors from medical schools in Khon Kaen province.
- RPH is in a prime location on Mitraphap Road in Khon Kaen.

W — Weakness

- Limited patient-base diversification as RPH still mainly focuses on cash patients in the low- to mid-tier markets.

O — Opportunity

- Limited public healthcare supply in Thailand.
- New building should help to unlock its capacity constraints.
- Rising patient flows from neighbouring countries now the ASEAN Economic Community has been launched.
- High GDP and GDP per capita in Khon Kaen.
- The Ratchaphruek brand should gain more recognition after listing on the SET.

T — Threat

- RPH has two major competitors: Khon Kaen Ram Hospital and Bangkok Khon Kaen Hospital.
- Regulatory risk.
- COVID-19 outbreaks.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	7.95	7.20	-9%
Net profit 21F (Bt m)	113	106	-6%
Net profit 22F (Bt m)	130	125	-4%
Consensus REC	**BUY: 3**	**HOLD: 0**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our DCF-based TP is below the Bloomberg consensus number, which we attribute to us having a more conservative view on RPH’s medium- to long-term earnings growth outlook after the COVID-19 crisis subsides.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- If patient numbers are lower than we currently anticipate, this would result in the key downside risk to our earnings forecasts.
- If RPH raises billing sizes by a lower extent than we currently expect, our gross-margin and profit forecasts would be subject to downside potential, presenting a secondary downside risk to our call.

Source: Thanachart

2021F earnings growth is driven by COVID-related services

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	817	799	930	939	1,002
Cost of sales	572	567	671	661	695
Gross profit	**245**	**233**	**259**	**278**	**307**
% gross margin	30.0%	29.1%	27.9%	29.6%	30.6%
Selling & administration expenses	128	122	144	145	153
Operating profit	**117**	**111**	**115**	**134**	**154**
% operating margin	14.3%	13.9%	12.4%	14.2%	15.4%
Depreciation & amortization	87	89	90	88	86
EBITDA	**203**	**200**	**205**	**221**	**240**
% EBITDA margin	24.9%	25.1%	22.0%	23.6%	23.9%
Non-operating income	14	13	23	26	23
Non-operating expenses	0	0	0	0	0
Interest expense	(10)	(8)	(6)	(3)	(1)
Pre-tax profit	**120**	**116**	**132**	**156**	**176**
Income tax	24	23	26	31	35
After-tax profit	**96**	**94**	**106**	**125**	**141**
% net margin	11.8%	11.7%	11.4%	13.3%	14.1%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	0	0	0	0	0
NET PROFIT	**96**	**94**	**106**	**125**	**141**
Normalized profit	**96**	**94**	**106**	**125**	**141**
EPS (Bt)	0.2	0.2	0.2	0.2	0.3
Normalized EPS (Bt)	0.2	0.2	0.2	0.2	0.3

No new investments in 2021-23F

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	120	239	214	174	280
Cash & cash equivalent	49	159	120	80	180
Account receivables	49	57	66	67	71
Inventories	22	23	28	27	29
Others	0	0	0	0	0
Investments & loans	12	12	12	12	12
Net fixed assets	1,604	1,527	1,460	1,395	1,332
Other assets	16	26	24	22	20
Total assets	**1,751**	**1,804**	**1,710**	**1,603**	**1,644**
LIABILITIES:					
Current liabilities:	241	225	181	125	129
Account payables	129	87	103	101	107
Bank overdraft & ST loans	0	20	11	1	1
Current LT debt	101	102	54	7	6
Others current liabilities	10	16	14	15	16
Total LT debt	**168**	**186**	**99**	**13**	**11**
Others LT liabilities	25	37	44	42	42
Total liabilities	**434**	**449**	**324**	**180**	**181**
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	546	546	546	546	546
Share premium	679	679	679	679	679
Warrants	0	0	0	0	0
Surplus	0	0	0	0	0
Retained earnings	**92**	**130**	**160**	**198**	**238**
Shareholders' equity	1,317	1,355	1,386	1,423	1,463
Liabilities & equity	**1,751**	**1,804**	**1,710**	**1,603**	**1,644**

Sources: Company data, Thanachart estimates

Sustainable cash inflow stream, in our view

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	120	116	132	156	176
Tax paid	(16)	(19)	(26)	(30)	(35)
Depreciation & amortization	87	89	90	88	86
Chg In w orking capital	(138)	(51)	2	(2)	(1)
Chg In other CA & CL / minorities	0	2	(2)	(0)	0
Cash flow from operations	**53**	**137**	**196**	**212**	**227**
Capex	(50)	(13)	(20)	(20)	(20)
Right of use	0	(12)	0	0	0
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	10	14	6	(3)	(1)
Cash flow from investments	**(40)**	**(11)**	**(14)**	**(23)**	**(21)**
Debt financing	(6)	39	(145)	(142)	(4)
Capital increase	0	0	0	0	0
Dividends paid	(54)	(55)	(76)	(88)	(101)
Warrants & other surplus	(3)	(2)	0	0	0
Cash flow from financing	**(63)**	**(17)**	**(221)**	**(230)**	**(106)**
Free cash flow	**3**	**125**	**176**	**192**	**207**

Not yet fully valued, in our view

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	35.7	36.7	32.4	27.4	24.4
Normalized PE - at target price (x)	40.8	41.9	37.1	31.4	27.9
PE (x)	35.7	36.7	32.4	27.4	24.4
PE - at target price (x)	40.8	41.9	37.1	31.4	27.9
EV/EBITDA (x)	18.0	17.9	17.0	15.3	13.7
EV/EBITDA - at target price (x)	20.4	20.4	19.4	17.5	15.7
P/BV (x)	2.6	2.5	2.5	2.4	2.4
P/BV - at target price (x)	3.0	2.9	2.8	2.8	2.7
P/CFO (x)	64.4	25.1	17.5	16.2	15.2
Price/sales (x)	4.2	4.3	3.7	3.7	3.4
Dividend yield (%)	2.2	2.1	2.3	2.8	3.1
FCF Yield (%)	0.1	3.6	5.1	5.6	6.0
(Bt)					
Normalized EPS	0.2	0.2	0.2	0.2	0.3
EPS	0.2	0.2	0.2	0.2	0.3
DPS	0.1	0.1	0.1	0.2	0.2
BV/share	2.4	2.5	2.5	2.6	2.7
CFO/share	0.1	0.3	0.4	0.4	0.4
FCF/share	0.0	0.2	0.3	0.4	0.4

Sources: Company data, Thanachart estimates

Economies of scale enhance margin

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	53.2	(2.1)	16.4	1.0	6.7
Net profit (%)	99.1	(2.7)	13.0	18.2	12.5
EPS (%)	99.1	(2.7)	13.0	18.2	12.5
Normalized profit (%)	99.1	(2.7)	13.0	18.2	12.5
Normalized EPS (%)	99.1	(2.7)	13.0	18.2	12.5
Dividend payout ratio (%)	79.3	75.6	76.0	76.0	76.0
Operating performance					
Gross margin (%)	30.0	29.1	27.9	29.6	30.6
Operating margin (%)	14.3	13.9	12.4	14.2	15.4
EBITDA margin (%)	24.9	25.1	22.0	23.6	23.9
Net margin (%)	11.8	11.7	11.4	13.3	14.1
D/E (incl. minor) (x)	0.2	0.2	0.1	0.0	0.0
Net D/E (incl. minor) (x)	0.2	0.1	0.0	(0.0)	(0.1)
Interest coverage - EBIT (x)	11.4	14.2	17.9	46.1	197.1
Interest coverage - EBITDA (x)	20.0	25.6	31.8	76.5	306.8
ROA - using norm profit (%)	5.4	5.3	6.0	7.6	8.7
ROE - using norm profit (%)	7.4	7.0	7.7	8.9	9.8
DuPont					
ROE - using after tax profit (%)	7.4	7.0	7.7	8.9	9.8
- asset turnover (x)	0.5	0.4	0.5	0.6	0.6
- operating margin (%)	16.0	15.6	14.9	16.9	17.7
- leverage (x)	1.4	1.3	1.3	1.2	1.1
- interest burden (%)	92.2	93.7	95.3	98.2	99.6
- tax burden (%)	80.3	80.6	80.5	80.3	80.0
WACC (%)	6.7	6.7	6.7	6.7	6.7
ROIC (%)	6.4	5.8	6.2	7.5	9.0
NOPAT (Bt m)	94	90	93	107	123
invested capital (Bt m)	1,537	1,505	1,429	1,365	1,300

Sources: Company data, Thanachart estimates

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Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

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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