HOLD (Unchanged)

Change in Numbers

TP: Bt 136.00 (From: Bt 131.00)

Upside : 1.1%

3 SEPTEMBER 2021

Bumrungrad Hospital Pcl (BH TB)

Fairly priced

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Thanachart Securities

We maintain our HOLD call on BH as we believe its share price has reflected a potentially strong earnings turnaround after COVID subsides and the country gradually reopens late next year. The current valuation implies a fair 38.7x PE multiple on back-to-base earnings in 2025F.

Maintaining HOLD

We maintain our HOLD rating on BH. *First*, we believe its current share price is fairly priced reflecting a discounted value of 38.7x PE on earnings at a normalized year in 2025F, when we expect foreign patient flows to normalize. *Second*, while it is true that we project strong EPS growth of 69% and 49% in 2022-23F, we see that reflected in PE multiples of 66x and 44x in those years. *Third*, the risk of new competition hasn't disappeared. Actually, shortages of COVID beds, vaccines and swab tests during the COVID crisis have helped make new hospital names, including MedPark Hospital and Vimutti Hospital, become known much more quickly to the public. *Lastly*, its pricing strategy continues to support BH's utilization and this should keep its ROE below the level in the previous cycle of 25%-plus.

Cutting our earnings

BH is a top-end hospital. To maintain its high-quality services, the hospital is being low key in offering COVID services, which made up 5% of revenue in 1H21. While not capitalizing much on COVID services, BH has been hit by falling cash-patient revenue from the lack of fly-in foreign patients and delayed visits by Thai and expat patients. Foreign and Thai patient revenue fell 48% and 2% in 2020 and we expect a 15% and 4% drop in 2021F, respectively. Due to weak 2Q21 results, the lockdown in 3Q21, and the country reopening being delayed to 4Q21F, we cut our earnings by 20%, 15% and 2% in 2021-23F. After rolling over our base year to 2022F, we lift our DCF-based 12-month TP to Bt136 from Bt131.

Raising COVID bed capacity

Due to strong demand for COVID services and weak Thai and foreign patient flows, BH has decided to increase its COVID service capacity. It increased COVID hospital beds to 80 in August from 65 in June 2021 and offered hospital-cum-hotel (hospitel) 111 beds at the SO/Bangkok Hotel in August. Hospitel occupancy is 30-35% and BH is looking to add one more hospitel. Together with Moderna vaccine revenue from 4Q21F, we estimate BH's COVID profit at Bt75m (8% of total earnings) in 2021F, Bt70m in 2022F and Bt41m in 2023F.

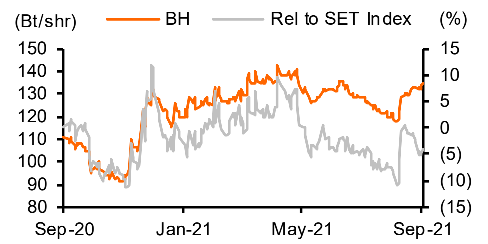
Pricing strategy continues

BH started to use a pricing strategy from late 2018 after it lost market share, especially in the Thai patient space. Its profit grew only 5% in 2018 and fell by 10% in 2019. The strategy has continued more aggressively during the COVID crisis since 2020. We expect the strategy to continue at least for the next few years beyond COVID to protect its market share, especially given new competition starting to emerge. We therefore project operating margin in the country's full reopening year in 2023F to remain low at 17% vs. 26% in 2017 and ROE to be at 15.0% vs. 25.6%.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	12,315	12,048	13,960	15,971
Net profit	1,204	968	1,622	2,424
Consensus NP	—	1,068	2,279	3,154
Diff frm cons (%)	—	*(9.4)*	*(28.8)*	*(23.2)*
Norm profit	1,199	960	1,622	2,424
Prev. Norm profit	—	1,205	1,904	2,479
Chg frm prev (%)	—	*(20.4)*	*(14.8)*	*(2.2)*
Norm EPS (Bt)	1.5	1.2	2.0	3.1
Norm EPS grw (%)	(68.2)	(20.0)	69.0	49.4
Norm PE (x)	89.1	111.4	65.9	44.1
EV/EBITDA (x)	41.1	44.6	32.8	25.1
P/BV (x)	5.8	6.3	6.6	6.6
Div yield (%)	2.4	2.3	2.3	2.3
ROE (%)	6.2	5.4	9.8	15.0
Net D/E (%)	(29.8)	(23.9)	(22.6)	(22.1)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 3-Sep-21 (Bt)	134.50
Market Cap (US$ m)	3,276.8
Listed Shares (m shares)	794.6
Free Float (%)	49.0
Avg Daily Turnover (US$ m)	5.4
12M Price H/L (Bt)	142.50/91.00
Sector	Health Care
Major Shareholder	Sophonpanich family ~35%

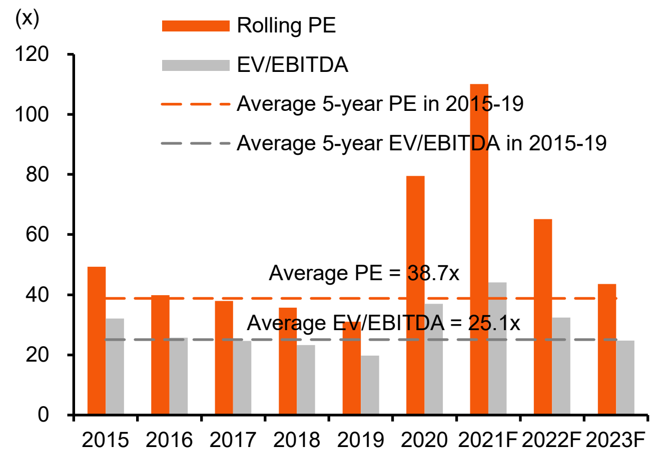
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Changes In Our Key Assumptions And Earnings Revisions

	2019	2020	2021F	2022F	2023F
Non-COVID patient revenue (Bt m)					
- New	18,409	12,315	11,130	13,471	15,784
- Old	—	—	11,881	14,991	17,309
- *Change (%)*	—	—	*(6.3)*	*(10.1)*	*(8.8)*
COVID-related revenue (Bt m)					
- New	—	—	927	510	204
- Old	—	—	—	—	—
- *Change (%)*	—	—	—	—	—
Normalized profit (Bt m)					
- New	3,760	1,199	960	1,622	2,424
- Old	—	—	1,205	1,904	2,479
- *Change (%)*	—	—	*(20.4)*	*(14.8)*	*(2.2)*

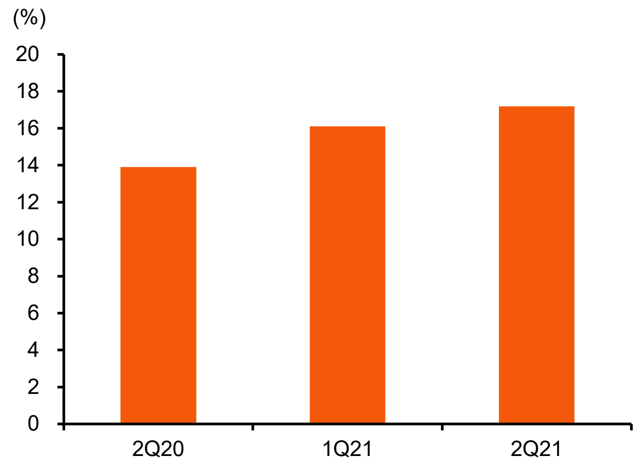
Sources: Company data, Thanachart estimates

Ex 2: BH's Rolling PE And EV/EBITDA



Sources: Company data, Thanachart estimates

Ex 3: BH's Price Discount

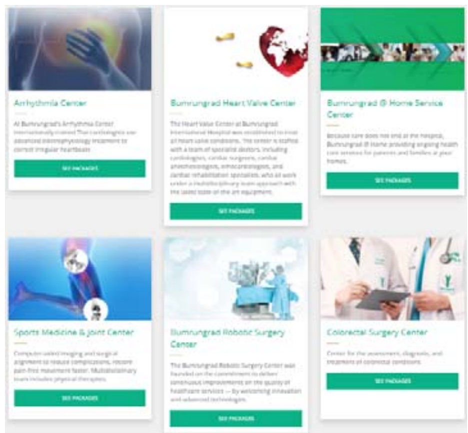


Source: Company data

Ex 4: Digital Gift Card

Source: Company data

Ex 5: Online Store With 349 Packages From 42 Clinics



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	3,108	4,119	4,925	5,601	6,120	6,581	7,045	7,538	8,063	8,621	9,215	—
Free cash flow	1,822	2,077	3,757	4,354	4,851	5,252	5,647	6,058	6,495	6,959	7,452	147,579
PV of free cash flow	1,817	1,843	3,138	3,426	3,514	3,567	3,595	3,615	3,634	3,650	3,485	69,010

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.6
WACC (%)	6.2
Terminal growth (%)	2.0
Enterprise value - add investments	104,293
Net debt (end-2021F)	(4,142)
Minority interest	307
Equity value	108,128
# of shares (m)	795
Equity value/share (Bt)	**136.00**

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	12,236	19.8	11.3	35.0	31.4	4.0	3.9	13.1	12.3	1.6	1.9
Guangzhou Pharmaceutical	874 HK	Hong Kong	7,259	16.3	7.3	9.9	9.2	1.2	1.1	8.7	8.2	1.7	1.8
Lijun Int'l Pharmaceutical	2005 HK	Hong Kong	1,861	22.7	22.7	13.4	10.9	2.2	1.9	9.9	8.2	3.1	3.8
Apollo Hospitals Enterprise	APHS IN	India	9,879	na	848.2	840.3	88.6	17.1	13.3	65.7	35.7	0.1	0.2
Fortis Healthcare India	FORH IN	India	2,972	na	na	na	64.9	3.3	3.2	56.2	22.3	0.0	0.0
KPJ Healthcare	KPJ MK	Malaysia	1,129	(34.5)	121.1	57.4	26.0	2.2	2.0	15.7	12.0	1.1	1.8
IHH Healthcare Bhd	IHH MK	Malaysia	13,404	139.7	13.2	41.9	37.0	2.4	2.2	17.0	15.9	0.8	0.9
Ryman	RYM NZ	New Zealand	5,626	(7.6)	29.0	34.0	26.3	3.1	2.5	37.1	26.5	1.4	1.8
Raffles Medical Group	RFMD SP	Singapore	1,991	69.6	2.6	36.7	35.8	2.9	2.8	20.0	19.2	2.0	1.7
Bangkok Chain Hospital *	BCH TB	Thailand	1,720	150.3	(32.9)	18.2	27.2	6.4	5.9	12.9	19.5	3.0	2.0
Bangkok Dusit Medical *	BDMS TB	Thailand	11,402	15.6	16.1	53.2	45.9	4.2	4.0	28.7	25.8	1.0	1.2
Bumrungrad Hospital *	BH TB	Thailand	3,277	(20.0)	69.0	111.4	65.9	6.3	6.6	44.6	32.8	2.3	2.3
Chularat Hospital *	CHG TB	Thailand	1,261	176.2	(34.9)	17.0	26.1	7.7	7.5	13.2	19.9	4.1	2.7
Ladprao General Hospital *	LPH TB	Thailand	141	49.6	(13.0)	20.7	23.8	2.9	2.9	11.5	12.3	3.9	3.4
Praram 9 Hospital *	PR9 TB	Thailand	260	3.9	20.0	40.4	33.7	2.0	1.9	15.2	13.3	1.1	1.3
Rajthanee Hospital *	RJH TB	Thailand	310	76.6	(21.5)	15.4	19.7	5.8	5.7	10.7	13.2	5.2	4.1
Ratchaphruek Hospital *	RPH TB	Thailand	104	13.0	18.2	31.9	27.0	2.4	2.4	16.7	15.0	2.4	2.8
Thonburi Healthcare Group*	THG TB	Thailand	801	na	123.4	168.9	75.6	3.3	3.3	27.0	22.8	0.4	0.9
Average				**46.1**	**70.6**	**90.9**	**37.5**	**4.4**	**4.1**	**23.5**	**18.6**	**2.0**	**1.9**

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

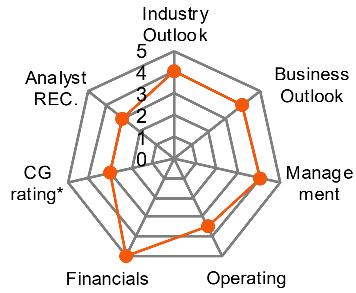
Based on 3 Sep 2021 closing prices

COMPANY DESCRIPTION

Bumrungrad Hospital (BH) operates a private hospital business in Bangkok with a current capacity of 580 beds and more than 3,000 outpatients a day. It is one of the leading healthcare providers in Thailand and Southeast Asia, offering a complete range of healthcare services. BH is expanding and upgrading its flagship Bangkok facilities to cater to increasing demand for private healthcare.

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

- Strong brand with a good international reputation.
- High-quality and complex medical treatments with good service in our view.
- Patient base comprises the high affordability group, which is less sensitive to prices.

W — Weakness

- Client base not well diversified.

O — Opportunity

- Rising incomes would boost people's affordability to pay for better-quality healthcare services.
- An ageing population will require more complex medical treatments.
- The ASEAN Economic Community's launch.

T — Threat

- Rising competition from regional peers such as Singapore, Malaysia and India.
- Policy and regulatory risks.
- COVID-19 outbreak risks.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	133.19	136.00	2%
Net profit 21F (Bt m)	1,068	968	-9%
Net profit 22F (Bt m)	2,279	1,622	-29%
Consensus REC	**BUY: 5**	**HOLD: 14**	**SELL: 5**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F earnings are below the Bloomberg consensus estimates, likely as we have a more conservative view on a foreign patient rebound.
- However, our DCF-based TP is higher than the Street's, which we attribute to us having a more bullish view on long-term earnings and rolling over our TP base year to 2022F.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- If the number of Thai and international patients were to come in above or below our current expectations, this would represent the key upside or downside risk to our call.
- If BH's billing size and margins were to be higher or lower than our current assumptions, this would represent a secondary upside or downside risk.

Source: Thanachart

Revenue is impacted by COVID-19

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	18,409	12,315	12,048	13,960	15,971
Cost of sales	10,285	7,677	7,679	8,411	9,223
Gross profit	**8,124**	**4,638**	**4,370**	**5,549**	**6,748**
% gross margin	44.1%	37.7%	36.3%	39.8%	42.3%
Selling & administration expenses	3,751	3,394	3,349	3,776	4,033
Operating profit	**4,373**	**1,244**	**1,021**	**1,773**	**2,715**
% operating margin	23.8%	10.1%	8.5%	12.7%	17.0%
Depreciation & amortization	1,223	1,220	1,284	1,376	1,404
EBITDA	**5,596**	**2,464**	**2,304**	**3,149**	**4,119**
% EBITDA margin	30.4%	20.0%	19.1%	22.6%	25.8%
Non-operating income	309	252	244	263	276
Non-operating expenses	(6)	0	0	0	0
Interest expense	(127)	(128)	(148)	(89)	(45)
Pre-tax profit	**4,549**	**1,369**	**1,117**	**1,947**	**2,947**
Income tax	773	150	145	312	508
After-tax profit	**3,776**	**1,219**	**972**	**1,636**	**2,439**
% net margin	20.5%	9.9%	8.1%	11.7%	15.3%
Shares in affiliates' Earnings	(3)	(2)	(10)	(11)	(12)
Minority interests	(13)	(17)	(2)	(2)	(3)
Extraordinary items	(12)	5	8	0	0
NET PROFIT	**3,748**	**1,204**	**968**	**1,622**	**2,424**
Normalized profit	**3,760**	**1,199**	**960**	**1,622**	**2,424**
EPS (Bt)	4.7	1.5	1.2	2.0	3.1
Normalized EPS (Bt)	4.7	1.5	1.2	2.0	3.1

Strong balance sheet

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	11,736	10,801	9,120	7,094	7,452
Cash & cash equivalent	8,490	8,138	6,700	4,500	4,500
Account receivables	2,748	2,206	1,981	2,104	2,407
Inventories	330	309	295	323	354
Others	168	148	145	168	192
Investments & loans	1,396	76	76	76	76
Net fixed assets	11,860	11,726	11,983	11,734	11,830
Other assets	1,189	1,619	1,563	1,507	1,494
Total assets	**26,181**	**24,222**	**22,741**	**20,411**	**20,851**
LIABILITIES:					
Current liabilities:	2,639	4,418	4,542	2,904	3,205
Account payables	870	704	736	807	884
Bank overdraft & ST loans	0	0	2,558	771	843
Current LT debt	0	2,497	0	0	0
Others current liabilities	1,769	1,217	1,247	1,326	1,477
Total LT debt	**2,513**	**21**	**0**	**0**	**0**
Others LT liabilities	764	946	874	983	1,125
Total liabilities	**5,916**	**5,385**	**5,416**	**3,887**	**4,330**
Minority interest	292	305	307	309	312
Preferreds shares	1	1	1	1	1
Paid-up capital	729	795	795	795	795
Share premium	286	450	450	450	450
Warrants	0	0	0	0	0
Surplus	305	50	50	50	50
Retained earnings	**18,652**	**17,236**	**15,723**	**14,919**	**14,914**
Shareholders' equity	19,973	18,532	17,018	16,214	16,210
Liabilities & equity	**26,181**	**24,222**	**22,741**	**20,411**	**20,851**

Sources: Company data, Thanachart estimates

Sustainable cash inflow

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	4,549	1,369	1,117	1,947	2,947
Tax paid	(767)	(550)	(17)	(364)	(453)
Depreciation & amortization	1,223	1,220	1,284	1,376	1,404
Chg In w orking capital	(220)	397	272	(81)	(256)
Chg In other CA & CL / minorities	(22)	(138)	(105)	97	60
Cash flow from operations	**4,763**	**2,298**	**2,551**	**2,975**	**3,702**
Capex	(1,827)	(1,045)	(1,500)	(1,086)	(1,500)
Right of use	0	(124)	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	(1,174)	1,320	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	137	(164)	(56)	124	155
Cash flow from investments	**(2,865)**	**(14)**	**(1,556)**	**(962)**	**(1,345)**
Debt financing	(179)	10	48	(1,787)	72
Capital increase	0	230	(0)	0	0
Dividends paid	(2,151)	(2,544)	(2,481)	(2,426)	(2,429)
Warrants & other surplus	(78)	(332)	0	0	0
Cash flow from financing	**(2,408)**	**(2,636)**	**(2,432)**	**(4,213)**	**(2,357)**
Free cash flow	**2,935**	**1,253**	**1,051**	**1,889**	**2,202**

Valuation not cheap in our view

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	28.4	89.1	111.4	65.9	44.1
Normalized PE - at target price (x)	28.7	90.1	112.6	66.6	44.6
PE (x)	28.4	88.8	110.5	65.9	44.1
PE - at target price (x)	28.8	89.7	111.7	66.6	44.6
EV/EBITDA (x)	18.0	41.1	44.6	32.8	25.1
EV/EBITDA - at target price (x)	18.2	41.6	45.1	33.1	25.3
P/BV (x)	5.3	5.8	6.3	6.6	6.6
P/BV - at target price (x)	5.4	5.8	6.4	6.7	6.7
P/CFO (x)	22.4	46.5	41.9	35.9	28.9
Price/sales (x)	5.8	8.7	8.9	7.7	6.7
Dividend yield (%)	2.2	2.4	2.3	2.3	2.3
FCF Yield (%)	2.8	1.2	1.0	1.8	2.1
(Bt)					
Normalized EPS	4.7	1.5	1.2	2.0	3.1
EPS	4.7	1.5	1.2	2.0	3.1
DPS	2.9	3.2	3.0	3.1	3.1
BV/share	25.2	23.3	21.4	20.4	20.4
CFO/share	6.0	2.9	3.2	3.7	4.7
FCF/share	3.7	1.6	1.3	2.4	2.8

Sources: Company data, Thanachart estimates

Margin and ROE not yet back at the normal level in 2022-23F

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	0.8	(33.1)	(2.2)	15.9	14.4
Net profit (%)	(9.7)	(67.9)	(19.6)	67.7	49.4
EPS (%)	(9.7)	(67.9)	(19.6)	67.7	49.4
Normalized profit (%)	(9.5)	(68.1)	(20.0)	69.0	49.4
Normalized EPS (%)	(9.6)	(68.2)	(20.0)	69.0	49.4
Dividend payout ratio (%)	62.2	211.2	250.0	150.0	100.0
Operating performance					
Gross margin (%)	44.1	37.7	36.3	39.8	42.3
Operating margin (%)	23.8	10.1	8.5	12.7	17.0
EBITDA margin (%)	30.4	20.0	19.1	22.6	25.8
Net margin (%)	20.5	9.9	8.1	11.7	15.3
D/E (incl. minor) (x)	0.1	0.1	0.1	0.0	0.1
Net D/E (incl. minor) (x)	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)
Interest coverage - EBIT (x)	34.4	9.7	6.9	20.0	61.0
Interest coverage - EBITDA (x)	44.1	19.3	15.6	35.5	92.5
ROA - using norm profit (%)	14.8	4.8	4.1	7.5	11.7
ROE - using norm profit (%)	19.6	6.2	5.4	9.8	15.0
DuPont					
ROE - using after tax profit (%)	19.7	6.3	5.5	9.8	15.0
- asset turnover (x)	0.7	0.5	0.5	0.6	0.8
- operating margin (%)	25.4	12.1	10.5	14.6	18.7
- leverage (x)	1.3	1.3	1.3	1.3	1.3
- interest burden (%)	97.3	91.5	88.3	95.6	98.5
- tax burden (%)	83.0	89.1	87.0	84.0	82.8
WACC (%)	6.2	6.2	6.2	6.2	6.2
ROIC (%)	29.9	7.9	6.9	11.6	18.0
NOPAT (Bt m)	3,630	1,108	888	1,489	2,247
invested capital (Bt m)	13,996	12,912	12,877	12,486	12,553

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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