BUY (Unchanged)	**TP: Bt 4.80** (Unchanged)
Company Update	**Upside : 27.0%**

22 SEPTEMBER 2021

Small Cap Research

Chulalat Hospital Pcl (CHG TB)

Utilization still running high

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CHG's COVID service revenue hasn't fallen along with the country's drop in reported cases. We also expect the company to increase its non-COVID bed capacity to serve growing pent-up demand in 4Q21F. We see the recent share price decline as an opportunity to BUY.

COVID service demand isn't falling

Thailand's reported COVID infection cases have been declining, but CHG hasn't experienced falling momentum in demand for its COVID services. It actually felt the need to increase hospital-cum hotel (ie, hospitel) beds from 7,000+ in mid-August to 8,000+ in mid-September with utilization remaining high at 85%. The strong demand at CHG is supported by still-high COVID case levels in the eastern part of Thailand where its hospital networks are.

Unlocking non-COVID capacity

Due to long delays to hospital visits, treatments and surgeries, including chronic diseases of the heart, bone and spine, as a result of the escalating COVID crisis since 2Q21, CHG expects some pent-up demand to be released in 4Q21. However, of the estimated total 850 hospital beds in service, 600 are being used for COVID patients while there are too few remaining beds for non-COVID patients. CHG therefore plans to open a 600-bed field hospital with half of its capacity in service opening first in early October 2021 (delayed from mid-September). With this field hospital, CHG can reduce the number of beds for COVID patients at its hospitals to serve non-COVID patients in 4Q21F.

Strong 2H21F earnings on the cards

We estimate CHG to report net profit of Bt867m in 3Q21F, up 208% y-y and 50% q-q. Drivers are a jump in COVID-19 revenue, more heart center management income and expanding margin. Looking to 4Q21F, though we foresee softer revenue from COVID services, we expect increases in non-COVID cash-patient revenue, high-intensity IPD revenue from the Social Security Scheme, and heart patients referrals from the Universal Coverage Scheme. We also expect CHG's revenue from hospital/heart center management and selling the Moderna vaccine to increase. We estimate CHG's 4Q21F earnings to check in at Bt726m, still up 186% y-y but down 16% q-q.

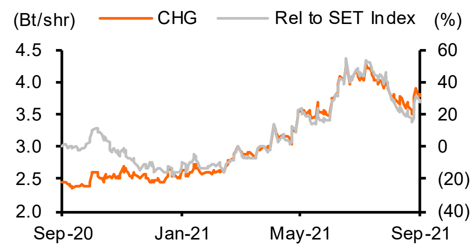
Still our top sector pick

CHG is still our top pick in the hospital sector. We see CHG as having a good balance to enjoy both COVID revenue during the disease crisis period and strong pent-up demand from non-COVID patients from 4Q21F onward. Although we estimate the COVID-19 revenue windfall to result in a 35% fall in earnings in 2022F from the high windfall base of 176% EPS growth in 2021F, we still project 2022F earnings to double from the pre-COVID level in 2019. Excluding the contribution from COVID-19 services, we estimate CHG's earnings to grow by 14%, 21% and 12% in 2021-23F. We also see CHG as inexpensive trading on 26.4x 2022F PE, vs. its historical five-year average of 41.3x and the sector's average of 42x. Thus, we reaffirm our BUY call on CHG.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	5,433	9,319	7,503	7,251
Net profit	877	2,421	1,577	1,426
Consensus NP	—	1,779	1,299	1,344
Diff frm cons (%)	—	*36.1*	*21.4*	*6.1*
Norm profit	877	2,421	1,577	1,426
Prev. Norm profit	—	2,421	1,577	1,426
Chg frm prev (%)	—	*0.0*	*(0.0)*	*(0.0)*
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	13.2	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	(2.4)	(8.1)	(17.8)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 22-Sep-21 (Bt)	3.78
Market Cap (US$ m)	1,243.3
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

Thanachart Securities

Ex 1: COVID Capacity And % Contribution To Earnings

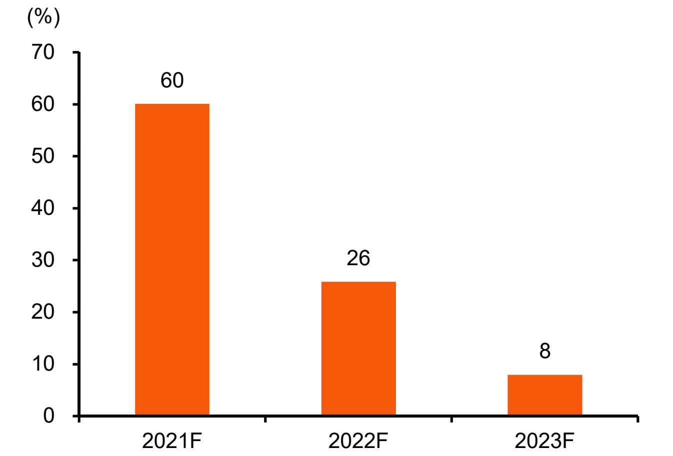
	Hospital beds	Hospitel beds	Field hospital beds	% of earnings contribution from COVID service in 2021F
BCH	1,450	16,000	940	80%
BDMS	3,200	5,000+	100*	24%
BH	80	111	—	8%
CHG	600	8,000+	—	60%
LPH	55	800	—	50%
PR9	37	100-	—	19%
RJH	127	—	1,771	46%
RPH	120	449	—	31%
THG	260	4,000	833*	152%

Sources: Company data, Thanachart estimates

Note: As of mid-September 2021

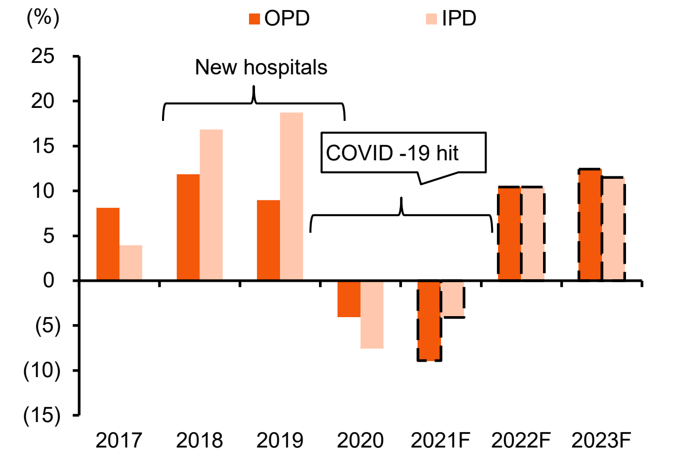
* Serve for red and yellow cases

Ex 2: CHG's Earnings Contribution From Covid Services



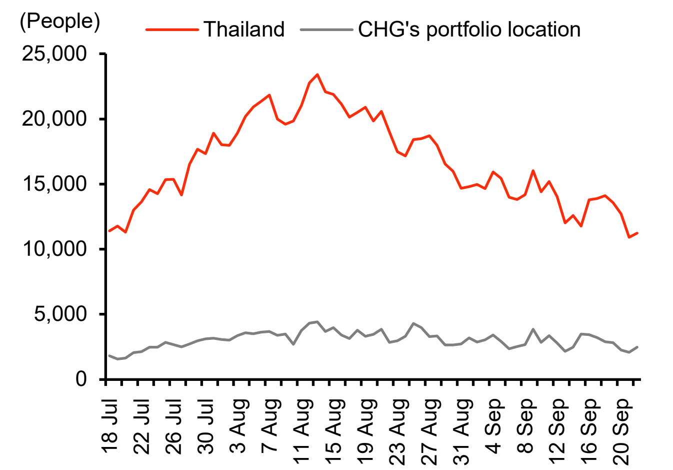
Source: Thanachart estimates

Ex 3: Cash Patient Volume Growth



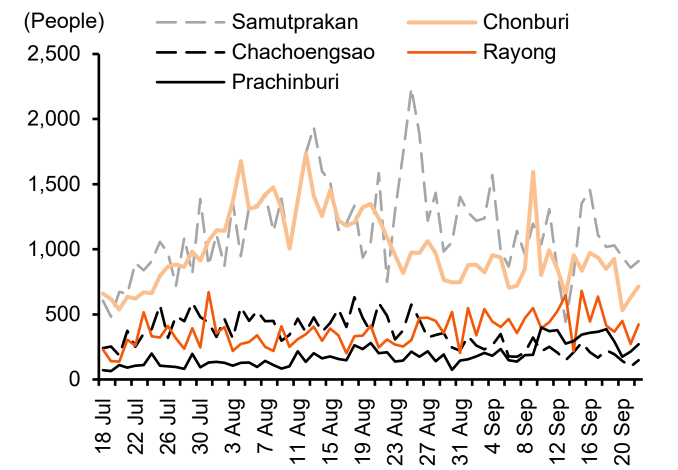
Sources: Company data, Thanachart estimates

Ex 4: # Of New COVID-19 Cases



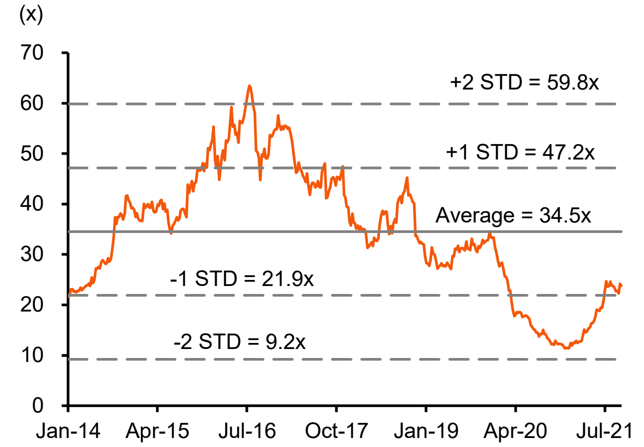
Source: Ministry of Health

Ex 5: # Of New COVID Cases Where CHG Has A Presence



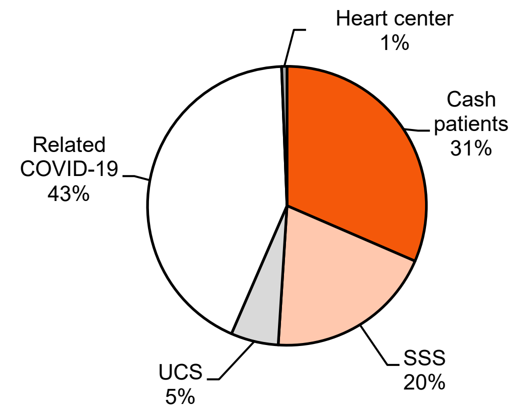
Source: Ministry of Health

Ex 6: CHG's PE Band



Sources: Bloomberg, Thanachart estimates

Ex 7: Revenue Breakdown In 2021F



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	1,792	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	1,787	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	**53,059**
Net debt (end-2021F)	(130)
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 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	11,571	19.8	11.3	33.9	30.5	3.8	3.8	12.9	12.0	1.6	2.0
Guangzhou Pharmaceutical	874 HK	Hong Kong	7,092	16.1	7.8	9.2	8.5	1.1	1.0	7.8	8.0	2.3	2.3
Lijun Int'l Pharmaceutical	2005 HK	Hong Kong	1,640	16.5	24.8	12.4	10.0	2.0	1.7	9.3	7.5	3.4	4.2
Apollo Hospitals Enterprise	APHS IN	India	9,549	na	857.1	821.5	85.8	16.7	13.0	64.2	34.9	0.1	0.2
Fortis Healthcare India	FORH IN	India	2,711	na	na	na	59.9	3.0	3.0	52.1	20.7	0.0	0.0
KPJ Healthcare	KPJ MK	Malaysia	1,127	(34.5)	121.1	57.9	26.2	2.2	2.0	16.0	12.1	1.1	1.9
IHH Healthcare Bhd	IHH MK	Malaysia	13,891	141.3	13.2	43.6	38.5	2.5	2.4	17.5	16.4	0.7	0.9
Ryman	RYM NZ	New Zealand	5,148	(7.6)	23.9	31.5	25.5	2.9	2.3	35.0	25.9	1.6	1.9
Raffles Medical Group	RFMD SP	Singapore	1,922	69.6	2.6	35.6	34.8	2.8	2.7	19.5	18.6	2.0	1.7
Bangkok Chain Hospital *	BCH TB	Thailand	1,663	150.3	(32.9)	18.1	26.9	6.3	5.9	12.8	19.3	3.0	2.0
Bangkok Dusit Medical *	BDMS TB	Thailand	10,882	15.6	16.1	52.1	44.9	4.1	3.9	28.0	25.2	1.1	1.2
Bumrungrad Hospital *	BH TB	Thailand	3,326	(20.0)	69.0	115.9	68.6	6.5	6.9	46.5	34.1	2.2	2.2
Chularat Hospital *	CHG TB	Thailand	1,243	176.2	(34.9)	17.2	26.4	7.8	7.6	13.2	20.1	4.1	2.7
Ladprao General Hospital *	LPH TB	Thailand	136	49.6	(13.0)	20.4	23.4	2.9	2.8	11.4	12.2	3.9	3.4
Praram 9 Hospital *	PR9 TB	Thailand	245	3.9	20.0	38.9	32.4	1.9	1.9	14.5	12.7	1.2	1.4
Rajthanee Hospital *	RJH TB	Thailand	292	76.6	(21.5)	14.9	18.9	5.6	5.5	10.3	12.7	5.4	4.2
Ratchaphruek Hospital *	RPH TB	Thailand	101	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	825	na	(5.6)	58.5	61.9	3.4	3.4	19.2	23.8	1.2	1.1
Average				**45.8**	**63.4**	**83.1**	**36.1**	**4.3**	**4.0**	**22.6**	**18.4**	**2.1**	**2.0**

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

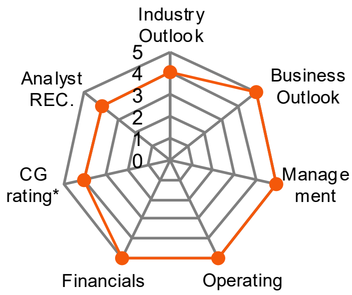
Based on 22 September 2021 closing prices

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.
- Increasing COVID-19 infections.

T — Threat

- Growing importance of franchise names and big players such as Bangkok Dusit Medical Services (BDMS TB, Bt22.90, BUY), which have entered the mid-market segment.
- Regulatory risk.
- Increasing COVID-19 infections

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	4.43	4.80	8%
Net profit 21F (Bt m)	1,779	2,421	36%
Net profit 22F (Bt m)	1,299	1,577	21%
Consensus REC	**BUY: 15**	**HOLD: 4**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

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

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

Strong, sustainable earnings outlook in 2021-23F

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	5,166	5,433	9,319	7,503	7,251
Cost of sales	3,629	3,685	5,625	5,038	4,922
Gross profit	**1,536**	**1,748**	**3,694**	**2,465**	**2,329**
% gross margin	29.7%	32.2%	39.6%	32.9%	32.1%
Selling & administration expenses	672	673	934	808	819
Operating profit	**864**	**1,075**	**2,760**	**1,657**	**1,510**
% operating margin	16.7%	19.8%	29.6%	22.1%	20.8%
Depreciation & amortization	343	370	373	385	409
EBITDA	**1,207**	**1,445**	**3,133**	**2,042**	**1,920**
% EBITDA margin	23.4%	26.6%	33.6%	27.2%	26.5%
Non-operating income	25	32	282	336	277
Non-operating expenses	0	0	0	0	0
Interest expense	(40)	(36)	(19)	(6)	(2)
Pre-tax profit	**849**	**1,071**	**3,024**	**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%	26.0%	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

New cancer center and hospital due to begin operating in 2022-23

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	1,764	1,763	2,432	2,117	2,668
Cash & cash equivalent	521	580	432	482	1,092
Account receivables	1,058	983	1,685	1,357	1,311
Inventories	161	179	277	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	404	328	310
Total assets	**6,266**	**6,201**	**7,195**	**6,933**	**7,270**
LIABILITIES:					
Current liabilities:	1,682	1,429	1,339	1,036	995
Account payables	607	570	925	828	809
Bank overdraft & ST loans	820	570	157	13	4
Current LT debt	146	136	36	3	1
Others current liabilities	109	153	221	192	181
Total LT debt	**573**	**407**	**109**	**9**	**3**
Others LT liabilities	115	171	257	209	197
Total liabilities	**2,370**	**2,008**	**1,705**	**1,253**	**1,196**
Minority interest	193	169	166	179	199
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**	**3,077**	**3,255**	**3,630**
Shareholders' equity	3,702	4,024	5,323	5,501	5,876
Liabilities & equity	**6,266**	**6,201**	**7,195**	**6,933**	**7,270**

Sources: Company data, Thanachart estimates

Strong and sustainable cash-inflow stream

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	849	1,071	3,024	1,987	1,786
Tax paid	(158)	(193)	(555)	(418)	(347)
Depreciation & amortization	343	370	373	385	409
Chg In w orking capital	(103)	20	(446)	261	39
Chg In other CA & CL / minorities	37	20	2	(2)	(2)
Cash flow from operations	**968**	**1,288**	**2,397**	**2,213**	**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	(56)	19	(2)
Cash flow from investments	**(687)**	**(250)**	**(611)**	**(486)**	**(207)**
Debt financing	312	(426)	(811)	(278)	(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)**	**(1,934)**	**(1,677)**	**(1,067)**
Free cash flow	**235**	**1,103**	**1,847**	**1,713**	**1,684**

Inexpensive valuation, in our view

VALUATION

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	13.2	20.1	21.1
EV/EBITDA - at target price (x)	44.6	36.9	16.8	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	18.8	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	4.4	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

Strong-profitability company, based on our forecasts

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	17.2	5.2	71.5	(19.5)	(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	29.6	22.1	20.8
EBITDA margin (%)	23.4	26.6	33.6	27.2	26.5
Net margin (%)	12.9	15.7	26.0	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	145.0	289.5	na
Interest coverage - EBITDA (x)	29.8	40.5	164.6	356.8	na
ROA - using norm profit (%)	11.8	14.1	36.2	22.3	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	51.8	29.4	25.4
- asset turnover (x)	0.9	0.9	1.4	1.1	1.0
- operating margin (%)	17.2	20.4	32.6	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	48.4	25.5	24.3
NOPAT (Bt m)	677	856	2,208	1,325	1,223
invested capital (Bt m)	4,720	4,558	5,193	5,043	4,792

Sources: Company data, Thanachart estimates

General Disclaimers And Disclosures:

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