

**SELL** (Unchanged)

Change in Numbers

**TP: Bt 26.00**

(From: Bt 21.50)

**Downside : 15.4%****7 SEPTEMBER 2021**

# Thonburi Healthcare Group (THG TB)

## Still pricey

**THG has significantly ramped up capacity of its COVID services and we boost our earnings by 205%, 29% and 4% in 2021-23F. However, we believe the current share price more than reflects the improved operations at 58.6x PE in 2022F. Maintain SELL.**

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### Hefty earnings hikes but maintain SELL

THG's earnings turned from a Bt195m loss in 1Q21 to a Bt83m profit in 2Q21, after its COVID-19 services started in mid-April. The company in 3Q21 sharply increased COVID services capacity, including COVID tests, hospital beds, so-called hospital beds and field hospital beds. Together with potential Moderna vaccine income from 4Q21F, we boost our earnings for THG by 205%, 29% and 4% in 2021-23F. We derive a new DCF-based 12-month TP, (rolled over to 2022F), of Bt26.0 from Bt21.5. Although we expect earnings to turn from a Bt32m loss in 2020 to a Bt472m profit in 2021F on rising revenue from COVID services, we believe the stock looks pricey trading at 58.6x PE in 2022F against 6% and 1% falls in EPS 2022-23F. We maintain SELL.

### Earnings driven by COVID-19 services

We expect THG's earnings to turn around from a Bt32m loss in 2020 to Bt472m, Bt446m and Bt441m profits in 2021-23F, largely driven by revenue from COVID-19 services, including Moderna vaccine income. Its combined COVID bed capacity increased to 5,090 beds (4,000 hospital beds, 830 field hospital beds for severe cases and 260 hospital beds) in September from a total of 1,100 in June. Together with Moderna vaccine income, we forecast its 2H21F earnings at Bt584m, up 6x h-h and turning from Bt112m loss in 1H21. We estimate THG's COVID earnings of Bt717m, Bt520m and Bt179m in 2021F-23F.

### Core operations remain weak

We expect THG to make losses from its non-COVID core operations of Bt245m and Bt75m in 2021-22F before turning a profit of Bt262m in 2023F. We estimate flat revenue from non-COVID cash patients at its three main campuses (Thonburi 1 Hospital [TH1], Thonburi 2 Hospital [TH2] and Rajindee Hospital) this year before growing by 14% in 2022F. We expect Jin Wellbeing County (JWC) to transfer only 15 and 26 units in 2021-22F. Total units transferred between 2018-1H21 stood at 135 vs. the first-phase plan of 494 units. We estimate hospital/heart center management revenue to fall by 39% this year because of two expiring contracts but we expect 9% revenue growth in 2022F from rising patient flows.

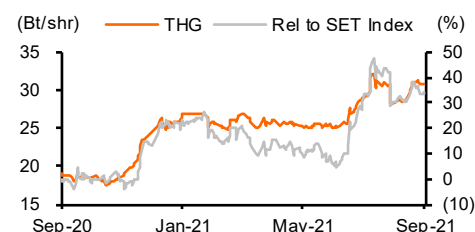
### Two new projects in 2023

THG has confirmed it still plans to open two new buildings at TH1 and TH2 in 2023 after a delay from its original schedule of this year. OPD rooms in both hospitals would increase by a combined 29% to 176 rooms and IPD active beds would rise by 10% to 573. Capex to be spent during 2021-23F on TH1 and TH2 is planned at Bt1.8bn. That is on top of a Bt500m capex plan for other hospitals. The two new buildings will likely put some pressure on THG's earnings in their first two years of operations.

### COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	7,315	8,912	8,498	9,671
Net profit	62	454	446	441
Consensus NP	—	329	299	384
Diff frm cons (%)	—	38.2	49.2	14.8
Norm profit	(32)	472	446	441
Prev. Norm profit	—	155	345	425
Chg frm prev (%)	—	205.4	29.1	3.6
Norm EPS (Bt)	(0.0)	0.6	0.5	0.5
Norm EPS grw (%)	na	na	(5.6)	(1.1)
Norm PE (x)	na	55.3	58.6	59.2
EV/EBITDA (x)	35.7	18.4	22.8	20.6
P/BV (x)	3.3	3.2	3.2	3.1
Div yield (%)	1.0	1.2	1.2	1.2
ROE (%)	na	5.9	5.5	5.3
Net D/E (%)	110.8	72.6	65.9	57.0

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 7-Sep-21 (Bt)	30.75
Market Cap (US\$ m)	800.9
Listed Shares (m shares)	849.1
Free Float (%)	49.1
Avg Daily Turnover (US\$ m)	2.2
12M Price H/L (Bt)	32.00/17.60
Sector	Health Care
Major Shareholder	Wanasin family 17.34%

Sources: Bloomberg, Company data, Thanachart estimates

**Ex 1: Changes In Our Key Assumptions And Earnings Revisions**

	2019	2020	2021F	2022F	2023F
<b>Revenue from hospital business (Bt m)</b>					
- New	6,751	6,279	5,711	6,463	8,219
- Old	—	—	6,646	7,427	8,671
- Change (%)	—	—	(14.1)	(13.0)	(5.2)
<b>Revenue from Jin Wellbeing County (Bt m)</b>					
- New	428	93	74	124	393
- Old	—	—	97	206	425
- Change (%)	—	—	(23.5)	(39.9)	(7.4)
<b>Revenue from COVID-related services (Bt m)</b>					
- New	—	—	2,457	1,393	358
- Old	—	—	—	—	—
- Change (%)	—	—	—	—	—
<b>Hospital/heart center management (Bt m)</b>					
- New	707	665	404	440	478
- Old	—	—	756	792	811
- Change (%)	—	—	(46.6)	(44.4)	(41.1)
<b>Gross margin (%)</b>					
- New	22.7	21.4	26.3	23.2	23.8
- Old	—	—	22.1	23.2	23.9
- Change (pp)	—	—	4.2	(0.0)	(0.1)
<b>SG&amp;A to sales (%)</b>					
- New	17.0	19.2	16.8	18.1	18.2
- Old	—	—	18.2	17.9	18.2
- Change (pp)	—	—	(1.4)	0.1	(0.0)
<b>Equity income (Bt m)</b>					
- New	(68)	35	(55)	38	57
- Old	—	—	25	50	61
- Change (%)	—	—	n.a.	(23.1)	(6.5)
<b>Net profit (Bt m)</b>					
- New	248	(32)	472	446	441
- Old	—	—	155	345	425
- Change (%)	—	—	205.4	29.1	3.6

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	1,215	1,330	1,547	1,742	1,897	2,045	2,191	2,344	2,516	2,703	2,901	—
Free cash flow	1,315	1,308	1,535	1,599	1,769	1,657	1,796	1,942	2,094	2,264	2,444	35,515
PV of free cash flow	1,311	1,120	1,216	1,152	1,173	1,013	1,011	1,007	1,000	954	945	13,730
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.7											
WACC (%)	8.1											
Terminal growth (%)	2.0											
Enterprise value - add investments	28,928											
Net debt (end 2021F)	6,175											
Minority interest	405											
Equity value <sup>1/</sup>	22,348											
# of shares (m)	849											
<b>Equity value / share (Bt)</b>	<b>26.00</b>											

Sources: Company data, Thanachart estimates

Note: <sup>1/</sup> Including the Bt3.3bn value of three land plots in Ratchaburi, Surat Thani (Samui) and Rangsit, Pathum Thani

## Valuation Comparison

## Ex 3: 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	11,822	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	7,410	16.3	7.3	10.0	9.4	1.2	1.1	8.9	8.4	1.7	1.7
Lijun Int'l Pharmaceutical	2005 HK	Hong Kong	1,853	22.7	22.7	13.3	10.9	2.2	1.9	9.8	8.2	3.2	3.8
Apollo Hospitals Enterprise	APHS IN	India	9,555	na	851.2	817.0	85.9	16.7	12.9	63.9	34.6	0.1	0.2
Fortis Healthcare India	FORH IN	India	2,836	na	na	na	62.2	3.1	3.1	54.0	21.5	0.0	0.0
KPJ Healthcare	KPJ MK	Malaysia	1,106	(34.5)	121.1	56.3	25.5	2.1	1.9	15.5	11.8	1.1	1.9
IHH Healthcare Bhd	IHH MK	Malaysia	13,310	139.7	13.2	41.7	36.8	2.3	2.2	16.9	15.8	0.8	0.9
Ryman	RYM NZ	New Zealand	5,556	(7.6)	29.0	33.6	26.0	3.1	2.4	36.7	26.3	1.5	1.8
Raffles Medical Group	RFMD SP	Singapore	1,988	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	1,668	150.3	(32.9)	17.7	26.3	6.2	5.7	12.5	18.9	3.1	2.1
Bangkok Dusit Medical *	BDMS TB	Thailand	11,163	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	3,205	(20.0)	69.0	108.9	64.4	6.1	6.4	43.5	32.0	2.3	2.3
Chularat Hospital *	CHG TB	Thailand	1,215	176.2	(34.9)	16.4	25.1	7.4	7.2	12.7	19.2	4.3	2.8
Ladprao General Hospital *	LPH TB	Thailand	135	49.6	(13.0)	19.7	22.7	2.8	2.8	11.0	11.8	4.1	3.5
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	306	76.6	(21.5)	15.2	19.4	5.7	5.6	10.5	13.0	5.3	4.1
Ratchaphruek Hospital *	RPH TB	Thailand	103	13.0	18.2	31.7	26.8	2.4	2.4	16.6	14.9	2.4	2.8
Thonburi Healthcare Group*	THG TB	Thailand	801	na	(5.6)	55.3	58.6	3.2	3.2	18.4	22.8	1.2	1.2
<b>Average</b>				<b>46.1</b>	<b>63.2</b>	<b>82.4</b>	<b>35.8</b>	<b>4.3</b>	<b>4.0</b>	<b>22.6</b>	<b>18.3</b>	<b>2.0</b>	<b>2.0</b>

Source: Bloomberg

Note: \* Thanachart estimates, using Thanachart normalized EPS

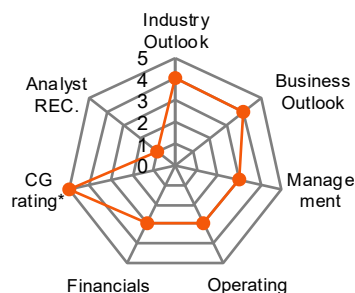
Based on 7 Sep 2021 closing prices

## COMPANY DESCRIPTION

Thonburi Healthcare Group Pcl (THG) was established on 13 August 1976 by the Vanasin family, which is the major shareholder of the company. THG is engaged in three businesses: 1) hospital business (private hospitals, hospital management services and step-down care services), 2) a healthcare solutions provider business (medical services for elderly people, chronic illness patients at customer homes and selling dental products, devices and equipment), and 3) other related businesses such as modular software expertise.

Source: Thanachart

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \* CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Very strong “Thonburi” brand in Thailand for over 40 years.
- Owners and the company executives have strong relationships with doctors and professors from the medical school at Mahidol University and Siriraj Hospital.
- Provides fully integrated healthcare services.

### O — Opportunity

- Limited public healthcare supply and rising healthcare demand in Thailand, China and the CLMV market.
- Poor healthcare infrastructure in the CLMV market while healthcare demand is rising and changes in demographic trends.
- Rising patient flows from neighbouring countries.
- COVID-19 pandemic.

### W — Weakness

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

### T — Threat

- Competition from other private hospitals, public hospitals' specialist clinics and Siriraj Piyamaharajkarun Hospital (SiPH).
- Regulatory and political risks.
- COVID-19 outbreak.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	26.24	26.00	-1%
<b>Net profit 21F (Bt m)</b>	329	454	38%
<b>Net profit 22F (Bt m)</b>	299	446	49%
<b>Consensus REC</b>	<b>BUY: 0</b>	<b>HOLD: 4</b>	<b>SELL: 1</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F earnings are higher than the Street's, likely as we have a more bullish view on THG's earnings contribution from COVID-19 services and vaccines in the short term.
- But our TP is line with the Bloomberg consensus number, likely as we have a more conservative view on THG's earnings from core businesses in the longer term.

Sources: Bloomberg consensus, Thanachart estimates

## RISKS TO OUR INVESTMENT CASE

- If the number of cash patients at THG's hospitals in Thailand or revenue from existing and new hospitals or management of excellence centres is stronger than our expectations, this would present upside risk to our earnings estimates.
- If equity-income contributions from its affiliated hospitals in Thailand and Myanmar were to come in above our expectations, this would lead to upside risk to our earnings forecasts.
- If unit sales for the senior homecare project are higher than our current expectation, this would lead to lower liquidity risk for the company.

Source: Thanachart

## INCOME STATEMENT

*Our 2021-22F revenue is driven by COVID-19 services*

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	8,232	7,315	8,912	8,498	9,671
Cost of sales	6,366	5,748	6,571	6,526	7,370
<b>Gross profit</b>	<b>1,866</b>	<b>1,567</b>	<b>2,341</b>	<b>1,972</b>	<b>2,300</b>
% gross margin	22.7%	21.4%	26.3%	23.2%	23.8%
Selling & administration expenses	1,397	1,405	1,499	1,537	1,759
<b>Operating profit</b>	<b>469</b>	<b>162</b>	<b>842</b>	<b>435</b>	<b>542</b>
% operating margin	5.7%	2.2%	9.5%	5.1%	5.6%
Depreciation & amortization	613	827	916	961	969
<b>EBITDA</b>	<b>1,082</b>	<b>989</b>	<b>1,758</b>	<b>1,396</b>	<b>1,511</b>
% EBITDA margin	13.1%	13.5%	19.7%	16.4%	15.6%
Non-operating income	138	112	162	376	253
Non-operating expenses	(5)	(6)	(3)	(3)	(3)
Interest expense	(216)	(281)	(293)	(270)	(292)
<b>Pre-tax profit</b>	<b>387</b>	<b>(12)</b>	<b>708</b>	<b>539</b>	<b>500</b>
Income tax	75	93	213	151	120
<b>After-tax profit</b>	<b>312</b>	<b>(106)</b>	<b>496</b>	<b>388</b>	<b>380</b>
% net margin	3.8%	-1.4%	5.6%	4.6%	3.9%
Shares in affiliates' Earnings	(67)	35	(55)	38	57
Minority interests	3	40	31	20	4
Extraordinary items	215	94	(18)	0	0
<b>NET PROFIT</b>	<b>462</b>	<b>62</b>	<b>454</b>	<b>446</b>	<b>441</b>
<b>Normalized profit</b>	<b>248</b>	<b>(32)</b>	<b>472</b>	<b>446</b>	<b>441</b>
EPS (Bt)	0.5	0.1	0.5	0.5	0.5
Normalized EPS (Bt)	0.3	(0.0)	0.6	0.5	0.5

## BALANCE SHEET

*TH1 and TH2's new buildings scheduled to be opened in 2023*

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
<b>ASSETS:</b>					
Current assets:	5,025	4,892	5,438	5,209	5,222
Cash & cash equivalent	739	496	570	570	570
Account receivables	1,325	1,351	1,587	1,513	1,722
Inventories	1,379	1,350	1,530	1,341	1,111
Others	1,582	1,696	1,751	1,785	1,819
Investments & loans	2,487	1,365	1,365	1,365	1,365
Net fixed assets	10,068	10,615	11,338	11,150	10,889
Other assets	2,705	3,408	1,495	1,294	1,093
<b>Total assets</b>	<b>20,285</b>	<b>20,280</b>	<b>19,636</b>	<b>19,017</b>	<b>18,569</b>
<b>LIABILITIES:</b>					
Current liabilities:	5,127	5,043	4,223	3,981	3,874
Account payables	1,598	1,097	1,260	1,251	1,413
Bank overdraft & ST loans	2,705	2,862	2,023	1,876	1,668
Current LT debt	694	958	708	657	584
Others current liabilities	130	126	231	197	208
<b>Total LT debt</b>	<b>5,639</b>	<b>5,905</b>	<b>4,013</b>	<b>3,720</b>	<b>3,309</b>
Others LT liabilities	737	1,001	2,899	2,688	2,634
<b>Total liabilities</b>	<b>11,504</b>	<b>11,949</b>	<b>11,136</b>	<b>10,390</b>	<b>9,816</b>
Minority interest	486	436	405	405	401
Preferreds shares	0	0	0	0	0
Paid-up capital	849	849	849	849	849
Share premium	6,861	6,861	6,861	6,861	6,861
Warrants	0	0	0	0	0
Surplus	(686)	(789)	(789)	(789)	(789)
<b>Retained earnings</b>	<b>1,271</b>	<b>974</b>	<b>1,173</b>	<b>1,301</b>	<b>1,430</b>
Shareholders' equity	8,296	7,895	8,094	8,222	8,351
<b>Liabilities &amp; equity</b>	<b>20,285</b>	<b>20,280</b>	<b>19,636</b>	<b>19,017</b>	<b>18,569</b>

Sources: Company data, Thanachart estimates

## CASH FLOW STATEMENT

*More new capex  
spending in 2021-23F*

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	387	(12)	708	539	500
Tax paid	(81)	(156)	(178)	(169)	(108)
Depreciation & amortization	613	827	916	961	969
Chg In working capital	(1,167)	(497)	(254)	255	183
Chg In other CA & CL / minorities	(264)	(69)	(32)	(23)	21
<b>Cash flow from operations</b>	<b>(511)</b>	<b>92</b>	<b>1,160</b>	<b>1,564</b>	<b>1,565</b>
Capex	(1,870)	(1,163)	(1,430)	(565)	(500)
Right of use	0	(2,515)	(0)	0	0
ST loans & investments	(7)	38	(22)	0	0
LT loans & investments	(182)	1,122	0	0	0
Adj for asset revaluation	(13)	(104)	0	0	0
Chg In other assets & liabilities	(26)	1,952	3,598	(189)	(62)
<b>Cash flow from investments</b>	<b>(2,097)</b>	<b>(671)</b>	<b>2,146</b>	<b>(754)</b>	<b>(562)</b>
Debt financing	2,833	695	(2,977)	(492)	(691)
Capital increase	0	0	0	0	0
Dividends paid	(380)	(255)	(255)	(318)	(312)
Warrants & other surplus	9	(104)	0	0	0
<b>Cash flow from financing</b>	<b>2,462</b>	<b>336</b>	<b>(3,232)</b>	<b>(810)</b>	<b>(1,003)</b>
<b>Free cash flow</b>	<b>(2,381)</b>	<b>(1,071)</b>	<b>(270)</b>	<b>999</b>	<b>1,065</b>

## VALUATION

*Expensive valuation, in  
our view*

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	105.3	na	55.3	58.6	59.2
Normalized PE - at target price (x)	89.1	na	46.8	49.5	50.1
PE (x)	56.5	420.3	57.5	58.6	59.2
PE - at target price (x)	47.7	355.3	48.6	49.5	50.1
EV/EBITDA (x)	31.8	35.7	18.4	22.8	20.6
EV/EBITDA - at target price (x)	28.1	31.7	16.1	19.9	17.9
P/BV (x)	3.1	3.3	3.2	3.2	3.1
P/BV - at target price (x)	2.7	2.8	2.7	2.7	2.6
P/CFO (x)	(51.1)	283.9	22.5	16.7	16.7
Price/sales (x)	3.2	3.6	2.9	3.1	2.7
Dividend yield (%)	1.3	1.0	1.2	1.2	1.2
FCF Yield (%)	(9.1)	(4.1)	(1.0)	3.8	4.1
<b>(Bt)</b>					
Normalized EPS	0.3	(0.0)	0.6	0.5	0.5
EPS	0.5	0.1	0.5	0.5	0.5
DPS	0.4	0.3	0.4	0.4	0.4
BV/share	9.8	9.3	9.5	9.7	9.8
CFO/share	(0.6)	0.1	1.4	1.8	1.8
FCF/share	(2.8)	(1.3)	(0.3)	1.2	1.3

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

*Earnings turnaround in  
2021-22F from COVID  
driver*

FY ending Dec	2019A	2020A	2021F	2022F	2023F
<b>Growth Rate</b>					
Sales (%)	16.0	(11.1)	21.8	(4.7)	13.8
Net profit (%)	33.0	(86.6)	630.7	(1.8)	(1.1)
EPS (%)	33.0	(86.6)	630.7	(1.8)	(1.1)
Normalized profit (%)	(19.2)	na	na	(5.6)	(1.1)
Normalized EPS (%)	(19.2)	na	na	(5.6)	(1.1)
Dividend payout ratio (%)	73.5	410.0	70.0	70.0	70.0
<b>Operating performance</b>					
Gross margin (%)	22.7	21.4	26.3	23.2	23.8
Operating margin (%)	5.7	2.2	9.5	5.1	5.6
EBITDA margin (%)	13.1	13.5	19.7	16.4	15.6
Net margin (%)	3.8	(1.4)	5.6	4.6	3.9
D/E (incl. minor) (x)	1.0	1.2	0.8	0.7	0.6
Net D/E (incl. minor) (x)	0.9	1.1	0.7	0.7	0.6
Interest coverage - EBIT (x)	2.2	0.6	2.9	1.6	1.9
Interest coverage - EBITDA (x)	5.0	3.5	6.0	5.2	5.2
ROA - using norm profit (%)	1.3	na	2.4	2.3	2.3
ROE - using norm profit (%)	3.0	na	5.9	5.5	5.3
<b>DuPont</b>					
ROE - using after tax profit (%)	3.8	na	6.2	4.8	4.6
- asset turnover (x)	0.4	0.4	0.4	0.4	0.5
- operating margin (%)	7.3	na	11.2	9.5	8.2
- leverage (x)	2.3	2.5	2.5	2.4	2.3
- interest burden (%)	64.2	(4.6)	70.8	66.7	63.1
- tax burden (%)	80.7	na	70.0	72.0	76.0
WACC (%)	8.1	8.1	8.1	8.1	8.1
ROIC (%)	2.8	1.0	3.4	2.2	3.0
NOPAT (Bt m)	379	162	590	313	412
invested capital (Bt m)	16,595	17,125	14,269	13,905	13,342

Sources: Company data, Thanachart estimates

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