

BUY (Unchanged)**TP: Bt 13.10**

(From: Bt 11.60)

Change in Numbers

Upside : 15.9%

13 JANUARY 2022

Praram 9 Hospital Pcl. (PR9 TB)

On the road to recovery

Having underperformed over the past two years due to its limited COVID services and rising costs from new buildings, PR9 is now recovering strongly due to pent-up demand for non-COVID services. Given the cost-control measures, we raise our earnings by 8-10% in 2022-24F and our TP to Bt13.1 (from Bt11.6). Reaffirm BUY.

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Earnings recovery

PR9, due to its limited COVID services and rising costs from new buildings, saw its earnings fall by 29% in 2020 and we estimate only 14% growth in 2021F from its low 2020 base. However, we now expect a business turnaround with a stronger growth outlook of 20/20% in 2022-23F. The growth is from recovering non-COVID revenue from pent-up demand for non-COVID services and a more flexible business strategy in providing COVID-related services. Our model assumes an end to the government's UCEP program for mild-symptom COVID services from 2H22F. We raise our earnings estimates by 10/8% for 2022-23F to reflect better-than-expected cost controls and we reaffirm our BUY call on PR9 with a new DCF-based 12-month TP (2022F base year) of Bt13.10 (from Bt11.60).

Cash patients rebounding

As we expect the new COVID wave to be less severe than the ones last year, we project PR9's cash patients to grow by 6/10% in 2022-23F vs. a decline of 10/3% in 2020-21F. Drivers are pent-up demand for non-COVID services, a new client base from government officials as now PR9 is participating in the direct disbursement program for civil servants' medical benefits, and new excellence centers opened in 2021, including a LASIK center, Oncocare center and Advanced Spine center. So far, the LASIK center has been highly successful. Revenue from this center is now ranked second after the kidney transplant center.

Enjoying operating leverage benefits

In 2020-1H21, PR9 was hit by rising depreciation costs from the expansion of its new building B at its existing hospital, office building and nurse dormitory. With a turnaround of cash patient revenue from more excellence centers and the new building B's OPD capacity for high-complexity medical treatment, we project its operating margin to rise to 9.2/10.0% in 2022-23F from 7.4/8.3% in 2020-21F.

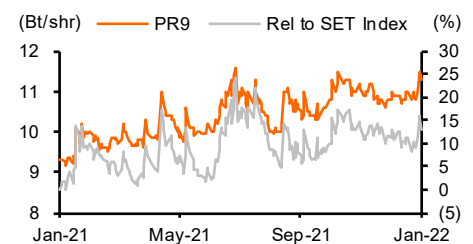
Likely strong 4Q21F earnings on the cards

PR9 said its revenue turned around very strongly in 4Q21. We estimate its 4Q21F earnings to grow 20% y-y and 18% q-q to Bt98m. The OPD and IPD cash patient rebound in 4Q21F should more than offset falling COVID revenue. Looking to 1Q22F, we expect COVID revenue to swing back up on the new Omicron wave. In 4Q21, PR9 provided only 40 beds or 18% of total capacity for COVID admissions while it closed its hotel-cum-hospital (hospitel) services and nurse dormitory-turned-COVID facility. However, with rising Omicron cases, PR9 has increased its COVID wards to six from two while it reopened two floors at its nurse dormitory after New Year.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	2,601	2,883	3,089	3,443
Net profit	202	231	277	333
Consensus NP	—	223	293	356
Diff frm cons (%)	—	3.7	(5.5)	(6.4)
Norm profit	202	231	277	333
Prev. Norm profit	—	210	252	310
Chg frm prev (%)	—	10.0	10.0	7.5
Norm EPS (Bt)	0.3	0.3	0.4	0.4
Norm EPS grw (%)	(29.0)	14.3	20.1	20.1
Norm PE (x)	44.0	38.5	32.0	26.7
EV/EBITDA (x)	19.4	13.9	12.4	10.8
P/BV (x)	2.2	2.1	2.0	1.9
Div yield (%)	1.0	1.2	1.4	1.7
ROE (%)	5.0	5.5	6.4	7.4
Net D/E (%)	(24.2)	(33.7)	(37.6)	(43.4)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 13-Jan-22 (Bt)	11.30
Market Cap (US\$ m)	267.5
Listed Shares (m shares)	786.3
Free Float (%)	58.7
Avg Daily Turnover (US\$ m)	0.3
12M Price H/L (Bt)	11.60/9.15
Sector	Health Care
Major Shareholder	Damapong family 31.14%

Sources: Bloomberg, Company data, Thanachart estimates

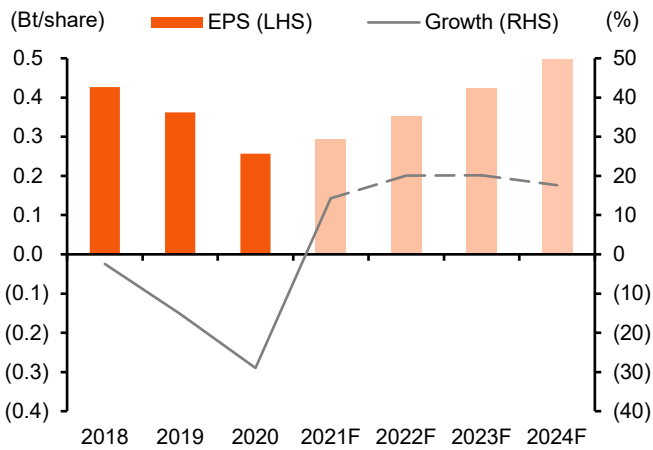


Ex 1: Changes In Our Key Assumptions And Earnings Revisions

	2019A	2020A	2021F	2022F	2023F	2024F
Revenue from related COVID-19 services (Bt m)						
- New			281	158	44	27
- Old			359	193	76	53
- Change (%)			(21.8)	(18.4)	(42.6)	(48.6)
Gross margin (%)						
- New	30.8	27.4	26.8	27.9	28.9	29.4
- Old			26.3	27.3	28.2	28.9
- Change (pp)			0.5	0.6	0.7	0.5
Norm profit (Bt m)						
- New	284	202	231	277	333	392
- Old			210	252	310	364
- Change (%)			10.0	10.0	7.5	7.6

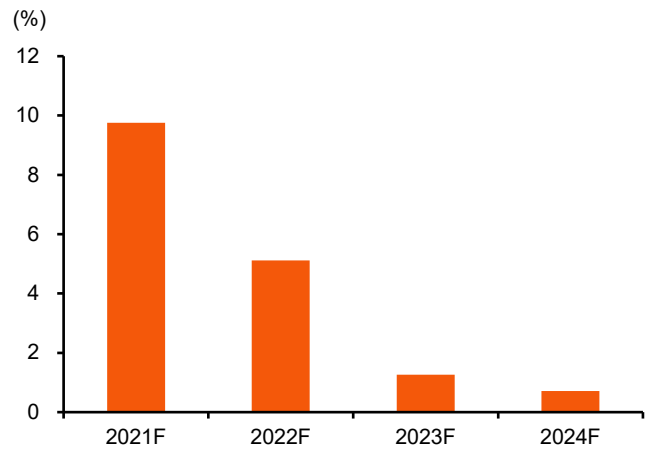
Sources: Company data, Thanachart estimates

Ex 2: Earnings On A Recovery Trajectory



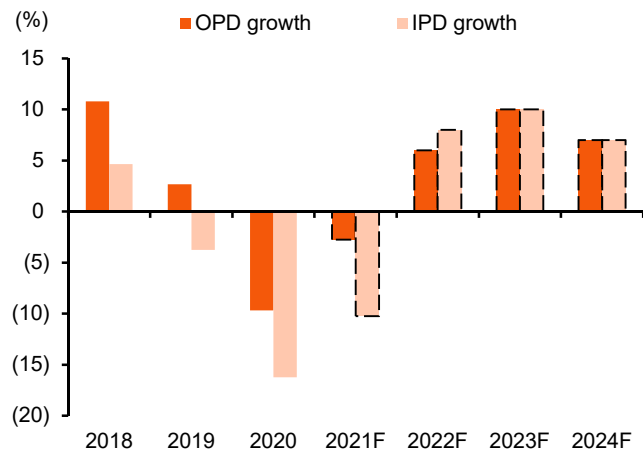
Sources: Company data, Thanachart estimates

Ex 3: Revenue From COVID-Related Services



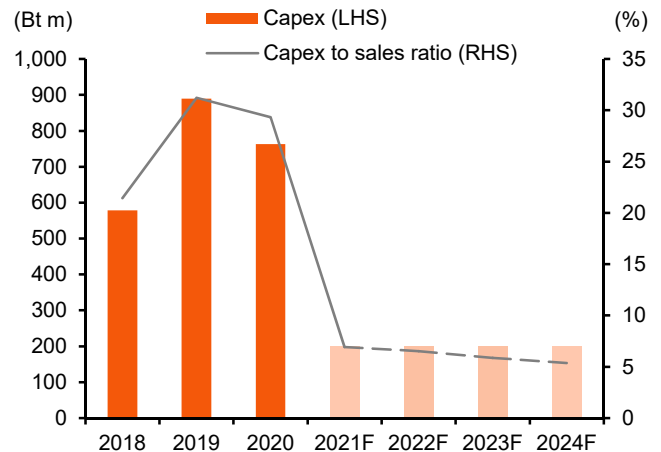
Source: Thanachart estimates

Ex 4: Improving OPD And IPD Cash Patients



Sources: Company data, Thanachart estimates

Ex 5: No New Significant Investment In 2022-23F



Sources: Company data, Thanachart estimates

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	575	635	696	750	783	815	850	887	926	968	1,016	—
Free cash flow	330	440	493	577	598	624	650	679	710	744	584	10,547
PV of free cash flow	329	387	407	438	423	412	401	391	381	356	260	4,687
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.6											
WACC (%)	6.7											
Terminal growth (%)	2.0											
Enterprise value - add investments	8,871											
Net debt (end 2021F)	(1,431)											
Minority interest	0											
Equity value	10,302											
# of shares (m)	786											
Equity value / share (Bt)	13.1											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 7: 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	11,205	19.8	(11.9)	32.6	36.9	3.7	3.7	12.6	12.6	1.7	1.7
Guangzhou Pharmaceutical	874 HK	Hong Kong	7,861	20.8	4.3	10.1	9.7	1.3	1.1	7.8	8.1	2.1	2.0
Lijun Int'l Pharmaceutical	2005 HK	Hong Kong	1,547	(2.4)	39.8	14.2	10.1	1.9	1.7	9.7	7.5	3.2	4.2
Apollo Hospitals Enterprise	APHS IN	India	9,709	(77.0)	935.6	835.6	80.7	17.0	13.2	65.6	32.8	0.1	0.2
Fortis Healthcare India	FORH IN	India	2,951	na	na	na	62.1	3.3	3.3	57.3	21.3	0.0	0.0
KPJ Healthcare	KPJ MK	Malaysia	1,088	(55.2)	200.0	80.8	26.9	2.1	2.0	15.9	12.2	1.0	1.8
IHH Healthcare Bhd	IHH MK	Malaysia	14,008	171.4	6.4	38.9	36.5	2.5	2.3	16.9	16.2	0.9	1.0
Ryman	RYM NZ	New Zealand	4,190	(7.6)	1.5	26.2	25.8	2.4	1.9	31.1	26.2	1.9	1.7
Raffles Medical Group	RFMD SP	Singapore	1,819	78.3	0.0	32.0	32.0	2.6	2.6	17.8	16.8	2.1	1.8
Bangkok Chain Hospital *	BCH TB	Thailand	1,502	373.8	(58.6)	8.6	20.7	4.6	4.5	6.2	11.9	6.4	2.7
Bangkok Dusit Medical *	BDMS TB	Thailand	10,719	15.6	16.1	51.0	43.9	4.0	3.8	27.4	24.6	1.1	1.3
Bumrungrad Hospital *	BH TB	Thailand	3,242	(20.0)	69.0	112.2	66.4	6.3	6.6	44.9	33.0	2.2	2.3
Chularat Hospital *	CHG TB	Thailand	1,173	176.2	(34.9)	16.1	24.7	7.3	7.1	12.4	18.8	4.4	2.8
Ladprao General Hospital *	LPH TB	Thailand	138	256.8	(51.1)	9.0	18.4	2.6	2.6	6.0	10.3	5.6	4.1
Praram 9 Hospital *	PR9 TB	Thailand	268	14.3	20.1	38.5	32.0	2.1	2.0	13.9	12.4	1.2	1.4
Rajthanee Hospital *	RJH TB	Thailand	300	164.4	(50.2)	10.2	20.4	5.1	5.2	7.5	13.7	7.2	3.6
Ratchaphruek Hospital *	RPH TB	Thailand	101	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	972	na	(56.4)	28.5	65.3	3.7	3.8	15.1	23.0	2.4	1.1
Average				71.4	61.6	80.9	35.5	4.2	3.9	21.4	17.6	2.5	2.0

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

Based on 13 Jan 2022 closing prices

COMPANY DESCRIPTION

Praram 9 Hospital Pcl. (PR9) was established in 1992 on Rama IX Road, which is a new business district in Bangkok. As of December 2020, PR9 had 225 registered beds with 166 active IPD beds. The hospital provides a comprehensive range of tertiary-care services, including health promotion, preventive healthcare, diagnosis, treatment and rehabilitation. Medical services cover both general care and complicated diseases.

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 "Praram 9 Hospital" brand in Bangkok.
- The hospital's executives have strong relationships with doctors and professors from top medical schools.
- PR9 is in a prime location on Rama IX Road, which is another key business district in Bangkok.
- PR9 is very well-known for kidney transplants and cardiovascular treatment.

O — Opportunity

- Limited public healthcare supply in Thailand.
- New building should help to unlock its capacity constraints.
- Rising patient flows from neighbouring countries.
- Ageing society megatrend.
- COVID-19 outbreak

W — Weakness

- Mainly focuses on mid- to high-tier cash patients.

T — Threat

- New rivals in the market.
- Regulatory risk.
- COVID-19 outbreak.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	12.85	13.10	2%
Net profit 21F (Bt m)	223	231	4%
Net profit 22F (Bt m)	293	277	-5%
Consensus REC	BUY: 5	HOLD: 1	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our DCF-based TP is 2% above the Bloomberg consensus number despite our 2022F earnings being lower. We attribute this to us having a more bullish view on PR9's growth prospects in the longer term.

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 PR9 were to raise its billing sizes by a lower extent than we current expect, our gross margin and profit forecasts would be subject to downside potential.
- If PR9's ability to control costs turns out to be lower than we currently expect, this would represent a secondary downside risk to our numbers.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

Top line is on a recovery path in 2021-23F

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	2,849	2,601	2,883	3,089	3,443
Cost of sales	1,972	1,890	2,110	2,228	2,448
Gross profit	876	712	773	862	996
% gross margin	30.8%	27.4%	26.8%	27.9%	28.9%
Selling & administration expenses	570	518	533	578	652
Operating profit	306	193	240	284	344
% operating margin	10.8%	7.4%	8.3%	9.2%	10.0%
Depreciation & amortization	164	213	296	296	296
EBITDA	470	406	536	580	640
% EBITDA margin	16.5%	15.6%	18.6%	18.8%	18.6%
Non-operating income	41	38	43	52	61
Non-operating expenses	0	0	0	0	0
Interest expense	0	(0)	(1)	(2)	(1)
Pre-tax profit	348	230	282	334	404
Income tax	63	28	51	57	71
After-tax profit	284	202	231	277	333
% net margin	10.0%	7.8%	8.0%	9.0%	9.7%
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	284	202	231	277	333
Normalized profit	284	202	231	277	333
EPS (Bt)	0.4	0.3	0.3	0.4	0.4
Normalized EPS (Bt)	0.4	0.3	0.3	0.4	0.4

BALANCE SHEET

No new significant investments in 2021-23F

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	1,643	1,208	1,757	1,932	2,287
Cash & cash equivalent	1,431	994	1,500	1,700	2,030
Account receivables	156	159	197	169	189
Inventories	49	49	52	55	60
Others	7	6	7	8	8
Investments & loans	0	0	0	0	0
Net fixed assets	2,862	3,417	3,326	3,235	3,144
Other assets	211	171	36	31	26
Total assets	4,717	4,797	5,119	5,198	5,457
LIABILITIES:					
Current liabilities:	523	497	708	618	667
Account payables	461	446	578	519	570
Bank overdraft & ST loans	0	0	62	35	28
Current LT debt	0	0	1	0	0
Others current liabilities	62	50	67	64	69
Total LT debt	0	0	6	4	3
Others LT liabilities	155	185	154	162	178
Total liabilities	678	682	868	784	848
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	786	786	786	786	786
Share premium	1,934	1,934	1,934	1,934	1,934
Warrants	0	0	0	0	0
Surplus	8	0	0	0	0
Retained earnings	1,310	1,395	1,530	1,693	1,889
Shareholders' equity	4,039	4,115	4,251	4,414	4,610
Liabilities & equity	4,717	4,797	5,119	5,198	5,457

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT*Strong cash inflow stream, on our estimates*

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	348	230	282	334	404
Tax paid	(46)	(36)	(46)	(56)	(67)
Depreciation & amortization	164	213	296	296	296
Chg In working capital	30	(18)	90	(34)	26
Chg In other CA & CL / minorities	3	(3)	11	(4)	0
Cash flow from operations	499	386	633	536	660
Capex	(890)	(763)	(200)	(200)	(200)
Right of use	0	(25)	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	1	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	79	91	99	9	16
Cash flow from investments	(809)	(697)	(101)	(191)	(184)
Debt financing	0	0	69	(30)	(8)
Capital increase	0	0	0	0	0
Dividends paid	(112)	(110)	(95)	(114)	(137)
Warrants & other surplus	(7)	(16)	0	0	0
Cash flow from financing	(119)	(126)	(26)	(145)	(146)
Free cash flow	(391)	(377)	433	336	460

VALUATION*Inexpensive valuation, in our view*

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	31.2	44.0	38.5	32.0	26.7
Normalized PE - at target price (x)	36.2	51.0	44.6	37.1	30.9
PE (x)	31.2	44.0	38.5	32.0	26.7
PE - at target price (x)	36.2	51.0	44.6	37.1	30.9
EV/EBITDA (x)	15.9	19.4	13.9	12.4	10.8
EV/EBITDA - at target price (x)	18.9	22.9	16.6	14.9	13.0
P/BV (x)	2.2	2.2	2.1	2.0	1.9
P/BV - at target price (x)	2.6	2.5	2.4	2.3	2.2
P/CFO (x)	17.8	23.0	14.0	16.6	13.5
Price/sales (x)	3.1	3.4	3.1	2.9	2.6
Dividend yield (%)	1.2	1.0	1.2	1.4	1.7
FCF Yield (%)	(4.4)	(4.2)	4.9	3.8	5.2
(Bt)					
Normalized EPS	0.4	0.3	0.3	0.4	0.4
EPS	0.4	0.3	0.3	0.4	0.4
DPS	0.1	0.1	0.1	0.2	0.2
BV/share	5.1	5.2	5.4	5.6	5.9
CFO/share	0.6	0.5	0.8	0.7	0.8
FCF/share	(0.5)	(0.5)	0.6	0.4	0.6

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	5.5	(8.7)	10.8	7.2	11.5
Net profit (%)	80.9	(29.0)	14.3	20.1	20.1
EPS (%)	45.2	(29.0)	14.3	20.1	20.1
Normalized profit (%)	5.7	(29.0)	14.3	20.1	20.1
Normalized EPS (%)	(15.1)	(29.0)	14.3	20.1	20.1
Dividend payout ratio (%)	38.7	42.8	45.0	45.0	45.0
Operating performance					
Gross margin (%)	30.8	27.4	26.8	27.9	28.9
Operating margin (%)	10.8	7.4	8.3	9.2	10.0
EBITDA margin (%)	16.5	15.6	18.6	18.8	18.6
Net margin (%)	10.0	7.8	8.0	9.0	9.7
D/E (incl. minor) (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.4)	(0.2)	(0.3)	(0.4)	(0.4)
Interest coverage - EBIT (x)	na	410.9	160.3	153.9	280.6
Interest coverage - EBITDA (x)	na	na	358.0	314.5	na
ROA - using norm profit (%)	6.2	4.2	4.7	5.4	6.3
ROE - using norm profit (%)	7.2	5.0	5.5	6.4	7.4
DuPont					
ROE - using after tax profit (%)	7.2	5.0	5.5	6.4	7.4
- asset turnover (x)	0.6	0.5	0.6	0.6	0.6
- operating margin (%)	12.2	8.9	9.8	10.9	11.8
- leverage (x)	1.2	1.2	1.2	1.2	1.2
- interest burden (%)	100.0	99.8	99.5	99.5	99.7
- tax burden (%)	81.8	87.7	82.0	83.0	82.5
WACC (%)	6.7	6.7	6.7	6.7	6.7
ROIC (%)	12.5	6.5	6.3	8.4	10.3
NOPAT (Bt m)	251	169	197	236	284
invested capital (Bt m)	2,608	3,121	2,820	2,753	2,610

Sources: Company data, Thanachart estimates

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