HOLD (Unchanged)

Change in Numbers

TP: Bt 170.00 (From: Bt 136.00)

Upside : 2.4%

11 MARCH 2022

Bumrungrad Hospital Pcl (BH TB)

Back but not yet on track



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BH turned around very strongly in 4Q21 and that was a big surprise to us. However, we maintain our HOLD rating as not all the turnaround factors seem sustainable while valuations look fairly priced to us at 53.9/39.4x 2022-23F PE with continued fierce competition.

A big surprise

BH posted a big jump in earnings to Bt667m in 4Q21 vs. Bt607m in 9M21. That was at 71% of 2019's average quarterly pre-COVID earnings. The turnaround was seen across patient types with extra income from COVID services and selling Moderna vaccines. While revenue from Thai patients and expats exceeded pre-COVID levels, 20% of fly-in patient revenue returned after the government reopened the country in November 2021. Note that its 2019 revenue breakdown was c.35:25:40% for Thais, expats and fly-in patients. We believe BH gained market share among Thais and expats in 4Q21 due to non-COVID patients seeking services from low COVID traffic hospitals with BH also offering big discounts and medical packages. MedPark Hospital, a new head-on rival to BH, was very busy with its COVID services.

What's next?

We believe BH can maintain its market share this year given COVID's continued spread. With the very low base in 9M21, we estimate 92% EPS growth in 2022F. 1Q22F momentum has so far continued decently from 4Q21 but we foresee the Russia/Ukraine war posing a potential short-term hiccup to fly-in patient flows. In the medium term, higher oil prices would be positive to BH as the majority of its fly-in patients are normally from the Middle East. In 4Q21, most fly-in patients were from the Middle East, Myanmar and Cambodia. We estimate 37/22% EPS growth in 2023-24F driven by a strong fly-in patient revenue recovery with its market share among Thai patients in the post-COVID period slipping back. The operating leverage effect should also be a driver. Exhibit 1 shows our key earnings assumptions.

Risks

We see three risks to BH's turnaround momentum. The first is a near-term potential hiccup from the Russian/Ukraine war that could disrupt some visit plans. Second is BH's plan to cut price discounts hurting its momentum in gaining market share. BH offered c.17% price discounts in 2021. Thirdly, when COVID subsides, some Thai patients may go back to using the currently heavy COVID traffic hospitals they went to previously if they think there is a reduced risk of catching COVID there. These include MedPark Hospital where many ex-BH medical staff work.

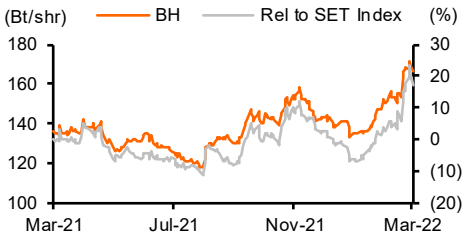
Lifting our earnings but maintaining HOLD

As a result of the big earnings surprise in 4Q21, we raise our earnings estimates by 51/38/34% in 2022-24F and our DCF-based 12-month TP, using a 2022F base year, to Bt170 (from Bt136 previously). However, we maintain our HOLD rating. We believe BH's share price, up 18% YTD and 42% from 2021's low, has already reflected the business turnaround. The stock now looks fairly priced to us at 53.9/39.4x PE in 2022-23F.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	12,404	15,053	17,105	18,757
Net profit	1,216	2,446	3,348	4,073
Consensus NP	—	2,617	3,553	4,024
Diff frm cons (%)	—	*(6.5)*	*(5.8)*	*1.2*
Norm profit	1,274	2,446	3,348	4,073
Prev. Norm profit	—	1,622	2,424	3,042
Chg frm prev (%)	—	*50.8*	*38.1*	*33.9*
Norm EPS (Bt)	1.6	3.1	4.2	5.1
Norm EPS grw (%)	6.2	92.0	36.9	21.7
Norm PE (x)	103.5	53.9	39.4	32.4
EV/EBITDA (x)	49.3	32.4	24.7	20.7
P/BV (x)	7.6	7.7	7.5	7.4
Div yield (%)	1.9	1.9	2.5	3.1
ROE (%)	7.1	14.2	19.3	22.9
Net D/E (%)	(33.6)	(32.8)	(33.6)	(38.7)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 11-Mar-22 (Bt)	166.00
Market Cap (US$ m)	3,963.4
Listed Shares (m shares)	794.6
Free Float (%)	49.0
Avg Daily Turnover (US$ m)	9.5
12M Price H/L (Bt)	171.50/117.50
Sector	Health Care
Major Shareholder	Sophonpanich family ~35%

Sources: Bloomberg, Company data, Thanachart estimates

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Thanachart Securities

Raising our earnings and TP

We lift our earnings estimates by 51/38/34% in 2022-24F

Bumrungrad Hospital Pcl (BH) reported stronger 4Q21 normalized profit than we had anticipated earlier of Bt667m, up 269% y-y and 124% q-q because of a faster-than-expected rebound in fly-in foreign patient revenue and better-than-expected operating margin. To reflect the stronger-than-expected foreign fly-in patients, we raise our international patient revenue assumptions. Meanwhile, the company's improving top line and management's policy to lower its price discounts this year prompt us to boost our gross margin projections and cut our SG&A-to-sales assumptions. Details are shown in Exhibit 1. Our earnings estimates are therefore raised by 51%, 38% and 34% in 2022-24F while we lift our DCF-based 12-month TP, using a 2022F base year, to Bt170/share from Bt136 previously.

Ex 1: Changes In Our Key Assumptions And Earnings Revisions

	2020A	2021A	2022F	2023F	2024F
Thai patient revenue (Bt m)					
- New	5,924	6,661	6,907	6,928	7,010
- Old			6,903	7,191	7,452
- Change (%)			*0.1*	*(3.7)*	*(5.9)*
International patient revenue (Bt m)					
- New	6,392	5,743	8,146	10,177	11,748
- Old			7,057	8,779	10,332
- Change (%)			*15.4*	*15.9*	*13.7*
Total revenue (Bt m)					
- New	12,315	12,404	15,053	17,105	18,757
- Old			13,960	15,971	17,785
- Change (%)			*7.8*	*7.1*	*5.5*
Average gross margin (%)					
- New	37.7	37.7	41.2	43.7	45.2
- Old			39.8	42.3	43.5
- Change (pp)			*1.4*	*1.5*	*1.7*
SG&A to sales (%)					
- New	27.6	26.6	23.3	21.3	20.0
- Old			27.1	25.3	24.0
- Change (pp)			*(3.8)*	*(3.9)*	*(4.0)*
Normalized profit (Bt m)					
- New	1,199	1,274	2,446	3,348	4,073
- Old			1,622	2,424	3,042
- Change (%)			*50.8*	*38.1*	*33.9*

Sources: Company data, Thanachart estimates

Fly-in foreign patients the key driver

4Q21 turnaround was seen across all patient types

BH reported a big jump in earnings to Bt667m in 4Q21 vs. 9M21 in Bt607m. That was at 71% of its average quarterly pre-COVID earnings in 2019. The turnaround was seen across all patient types with additional income from COVID services and selling Moderna vaccines. While revenue from Thai patients and expats exceeded the pre-COVID level, 20% of fly-in patient revenue returned after the government reopened the country in November 2021.

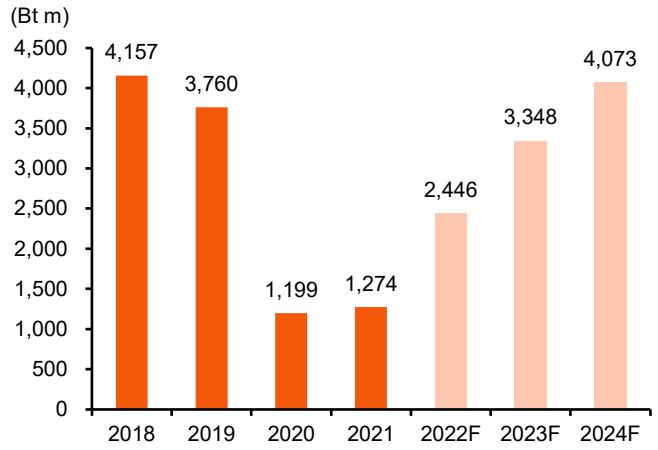
Thai and expat patient revenue in 4Q21 was higher than in its pre-COVID year

Note that 2019 revenue breakdown was c. 35:25:40% between Thais, expats and fly-in patients. We believe BH gained market share among Thai and expat patients in 4Q21 as a result of non-COVID patients seeking services from low COVID traffic hospitals with BH also offering big discounts and medical packages, particularly to Thai and expat patients. Discounts were offered for room rates, medicines and diagnosis tests.

Rebound in fly-in foreign patients the next earnings driver, not Thai patients

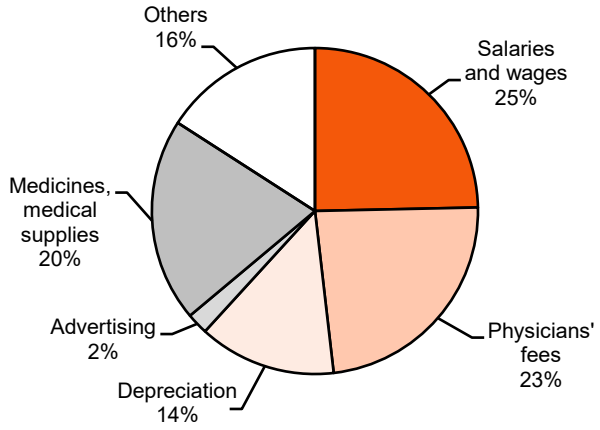
We believe BH can maintain its market share this year given the continued spread of COVID. Due to the very low base in 9M21, we estimate 92% EPS growth in 2022F. 1Q22F momentum has so far continued decently from 4Q21. We estimate 37/22% EPS growth in 2023-24F. We expect the key earnings drivers in 2022-24F to be a strong fly-in patient revenue recovery with market share among Thai patients slipping back post-COVID and operating margin expanding on the back of the operating leverage effect and a rising patient mix of high-margin fly-in patients. Foreign patient flows from the Middle East (UAE, Oman and Qatar) and Myanmar and Cambodia look set to remain strong.

Ex 2: Strong Earnings Turnaround From Low Base Effect



Sources: Company data, Thanachart estimates

Ex 3: Cost Breakdown



Source: Company data

Earnings turnaround looks in the price; HOLD

Maintaining our HOLD rating

Though we foresee a strong earnings turnaround this year from the low base effect after raising our earnings and TP, we maintain our HOLD rating on BH for the following reasons:

First, we believe BH's share price, up 18% YTD and 42% from 2021's low, has already reflected its business turnaround. Trading at 53.9/39.4x PE in 2022-23F, BH looks fairly priced in our view.

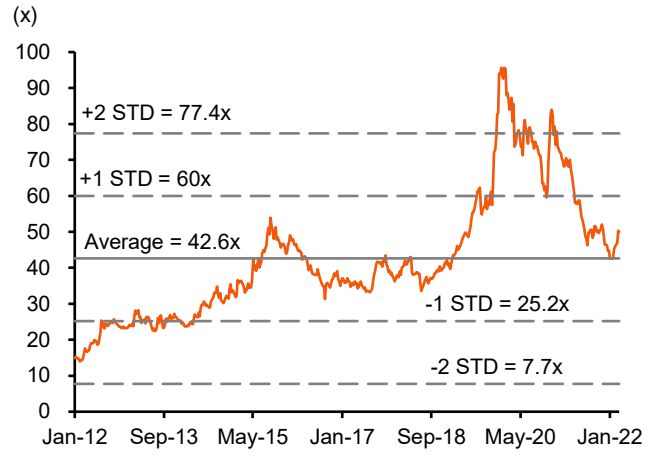
Second, we see three risks to BH's turnaround momentum:

1) A near-term potential hiccup from the Russian/Ukraine conflict that could disrupt some visit plans over the short term.

2) BH's plan to reduce price discounts this year could affect its momentum in gaining market share among Thai and expat patients. BH offered steep price discounts in 2021 of around 17%.

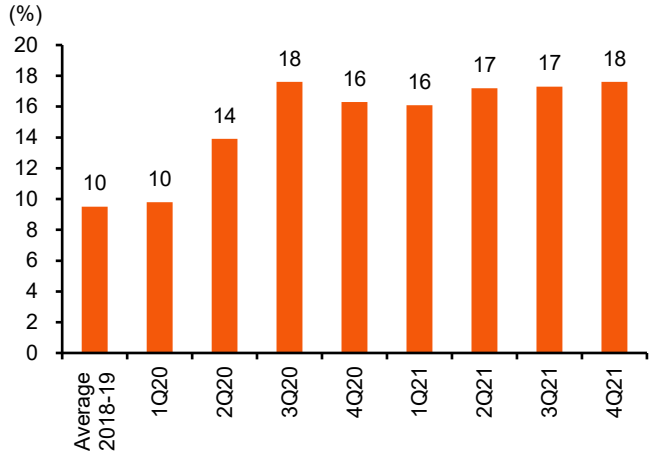
3) Also when COVID subsides, some Thai patients may go back to the currently heavy COVID traffic hospitals they went to previously if they think there is a reduced risk of catching COVID there. This includes competition from MedPark Hospital where many former BH medical staff work and which also focuses on the premium Thai and international market.

Ex 4: BH's PE Band



Sources: Company data, Bloomberg, Thanachart estimates

Ex 5: BH's Price Discounts



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	2033F	Terminal Value
EBITDA excl. depre from right of use	3,866	5,067	6,022	6,673	7,263	7,778	8,248	8,746	9,276	9,839	10,437	11,022	—
Free cash flow	2,160	2,860	4,562	5,246	5,747	6,192	6,586	7,002	7,442	7,910	8,408	8,908	186,053
PV of free cash flow	2,154	2,549	3,837	4,092	4,213	4,266	4,264	4,260	4,255	4,065	4,041	4,006	83,666

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.6
WACC (%)	5.9
Terminal growth (%)	2.0
Enterprise value - add investments	129,669
Net debt (end-2021)	(5,912)
Minority interest	332
Equity value	135,249
# of shares (m)	795
Equity value/share (Bt)	**170**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 7: Valuation Comparison With Regional Peers

Name	BBG code	Country	Market Cap (US$ m)	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	EV/EBITDA 22F (x)	EV/EBITDA 23F (x)	Div yield 22F (%)	Div yield 23F (%)
Ramsay Healthcare	RHC AU	Australia	10,169	(8.9)	50.8	34.5	22.9	3.4	3.1	11.4	9.5	2.1	2.6
Guangzhou Pharmaceutical	874 HK	Hong Kong	7,099	27.6	4.1	8.8	8.4	1.0	1.0	7.1	8.8	2.2	3.5
Lijun Int'l Pharmaceutical	2005 HK	Hong Kong	1,132	91.7	23.3	7.6	6.2	1.3	1.1	5.7	4.7	5.7	7.9
Apollo Hospitals Enterprise	APHS IN	India	9,127	505.1	27.8	74.8	58.5	12.6	10.6	31.6	27.0	0.2	0.3
Fortis Healthcare India	FORH IN	India	2,586	na	39.0	52.1	37.4	3.0	2.7	19.6	17.6	0.0	0.0
KPJ Healthcare	KPJ MK	Malaysia	1,025	177.3	24.2	30.0	24.1	1.9	1.8	12.2	10.9	1.7	2.1
IHH Healthcare Bhd	IHH MK	Malaysia	13,442	(9.4)	14.8	35.0	30.5	2.3	2.2	15.2	14.1	0.9	1.1
Ryman	RYM NZ	New Zealand	3,249	(46.6)	40.3	21.0	15.0	1.4	1.3	22.1	18.1	2.1	2.4
Raffles Medical Group	RFMD SP	Singapore	1,572	(13.5)	2.6	29.5	28.8	2.2	2.1	14.6	14.0	2.2	2.1
Bangkok Chain Hospital *	BCH TB	Thailand	1,536	(64.8)	(9.5)	21.2	23.4	4.7	4.3	12.2	13.1	2.6	2.3
Bangkok Dusit Medical *	BDMS TB	Thailand	12,177	2.2	17.9	50.0	42.4	4.4	4.2	28.1	24.6	1.1	1.3
Bumrungrad Hospital *	BH TB	Thailand	3,963	92.0	36.9	53.9	39.4	7.7	7.5	32.4	24.7	1.9	2.5
Chularat Hospital *	CHG TB	Thailand	1,223	(62.0)	(14.2)	25.4	29.6	7.2	6.8	19.0	21.4	2.8	2.4
Ladprao General Hospital *	LPH TB	Thailand	125	(46.4)	(12.8)	16.8	19.2	2.3	2.3	9.4	10.7	4.5	3.9
Praram 9 Hospital *	PR9 TB	Thailand	279	36.7	17.2	27.2	23.2	2.1	2.0	11.6	10.0	1.7	1.9
Rajthanee Hospital *	RJH TB	Thailand	291	(51.7)	(3.9)	19.8	20.6	5.0	4.7	13.3	13.9	3.7	3.5
Ratchaphruek Hospital *	RPH TB	Thailand	103	(68.9)	12.5	27.2	24.2	2.4	2.3	15.2	13.5	2.8	3.1
Thonburi Healthcare Group*	THG TB	Thailand	1,528	(63.9)	(3.1)	103.0	106.3	6.0	5.9	34.4	33.4	0.7	0.7
Average				**29.2**	**14.9**	**35.4**	**31.1**	**3.9**	**3.7**	**17.5**	**16.1**	**2.2**	**2.4**

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

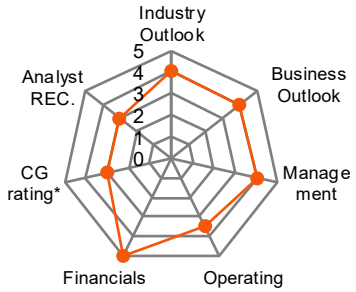
Based on 11 Mar 2022 closing prices

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 health care.

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)	168.17	170.00	1%
Net profit 22F (Bt m)	2,617	2,446	-7%
Net profit 23F (Bt m)	3,553	3,348	-6%
Consensus REC	**BUY: 8**	**HOLD: 12**	**SELL: 5**

Sources: Bloomberg consensus, Thanachart estimates

HOW ARE WE DIFFERENT FROM THE STREET?

- Despite our 2022-23F earnings being below the Bloomberg consensus estimates, our TP is higher than the Street's, likely because we assign a lower discount rate to reflect its strong earnings turnaround over the short term.

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

2022-24F earnings set to turn around from the low base effect

No significant new investments planned in 2022-24

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	12,315	12,404	15,053	17,105	18,757
Cost of sales	7,677	7,731	8,852	9,627	10,276
Gross profit	**4,638**	**4,673**	**6,200**	**7,478**	**8,481**
% gross margin	37.7%	37.7%	41.2%	43.7%	45.2%
Selling & administration expenses	3,394	3,296	3,506	3,645	3,744
Operating profit	**1,244**	**1,377**	**2,694**	**3,833**	**4,737**
% operating margin	10.1%	11.1%	17.9%	22.4%	25.3%
Depreciation & amortization	1,220	1,180	1,202	1,264	1,285
EBITDA	**2,464**	**2,557**	**3,896**	**5,096**	**6,022**
% EBITDA margin	20.0%	20.6%	25.9%	29.8%	32.1%
Non-operating income	252	269	222	246	278
Non-operating expenses	0	0	0	0	0
Interest expense	(128)	(120)	(6)	(8)	(7)
Pre-tax profit	**1,369**	**1,527**	**2,910**	**4,070**	**5,008**
Income tax	150	216	436	692	901
After-tax profit	**1,219**	**1,311**	**2,473**	**3,379**	**4,107**
% net margin	9.9%	10.6%	16.4%	19.8%	21.9%
Shares in affiliates' Earnings	(2)	(12)	(14)	(15)	(16)
Minority interests	(17)	(24)	(14)	(16)	(17)
Extraordinary items	5	(58)	0	0	0
NET PROFIT	**1,204**	**1,216**	**2,446**	**3,348**	**4,073**
Normalized profit	**1,199**	**1,274**	**2,446**	**3,348**	**4,073**
EPS (Bt)	1.5	1.5	3.1	4.2	5.1
Normalized EPS (Bt)	1.5	1.6	3.1	4.2	5.1

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	10,801	8,062	8,605	9,144	10,517
Cash & cash equivalent	8,138	5,936	6,000	6,200	7,300
Account receivables	2,206	1,461	1,856	2,109	2,313
Inventories	309	328	340	369	394
Others	148	338	410	466	511
Investments & loans	76	1	1	1	1
Net fixed assets	11,726	11,532	11,446	11,712	11,027
Other assets	1,619	1,261	1,206	1,151	1,126
Total assets	**24,222**	**20,857**	**21,259**	**22,008**	**22,672**
LIABILITIES:					
Current liabilities:	4,418	2,284	2,402	2,673	2,814
Account payables	704	805	849	923	985
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	2,497	0	25	18	21
Others current liabilities	1,217	1,479	1,527	1,732	1,808
Total LT debt	**21**	**23**	**227**	**165**	**188**
Others LT liabilities	946	932	1,108	1,242	1,362
Total liabilities	**5,385**	**3,239**	**3,737**	**4,080**	**4,364**
Minority interest	305	332	346	362	379
Preferreds shares	1	1	1	1	1
Paid-up capital	795	795	795	795	795
Share premium	450	450	450	450	450
Warrants	0	0	0	0	0
Surplus	50	94	94	94	94
Retained earnings	**17,236**	**15,947**	**15,837**	**16,227**	**16,590**
Shareholders' equity	18,532	17,286	17,176	17,566	17,929
Liabilities & equity	**24,222**	**20,857**	**21,259**	**22,008**	**22,672**

Sources: Company data, Thanachart estimates

Strong cash inflow streams, based on our estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	1,369	1,527	2,910	4,070	5,008
Tax paid	(550)	(91)	(483)	(636)	(911)
Depreciation & amortization	1,220	1,180	1,202	1,264	1,285
Chg In w orking capital	397	827	(363)	(209)	(166)
Chg In other CA & CL / minorities	(138)	(62)	9	78	24
Cash flow from operations	**2,298**	**3,381**	**3,275**	**4,567**	**5,240**
Capex	(1,045)	(948)	(1,086)	(1,500)	(600)
Right of use	(124)	(21)	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	1,320	74	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(164)	270	202	159	144
Cash flow from investments	**(14)**	**(625)**	**(884)**	**(1,341)**	**(456)**
Debt financing	10	(2,497)	229	(69)	26
Capital increase	230	0	(0)	0	0
Dividends paid	(2,544)	(2,545)	(2,555)	(2,958)	(3,710)
Warrants & other surplus	(332)	84	0	0	0
Cash flow from financing	**(2,636)**	**(4,958)**	**(2,327)**	**(3,026)**	**(3,685)**
Free cash flow	**1,253**	**2,432**	**2,189**	**3,067**	**4,640**

Fair valuation, in our view

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	110.0	103.5	53.9	39.4	32.4
Normalized PE - at target price (x)	112.6	106.0	55.2	40.4	33.2
PE (x)	109.5	108.5	53.9	39.4	32.4
PE - at target price (x)	112.2	111.1	55.2	40.4	33.2
EV/EBITDA (x)	51.3	49.3	32.4	24.7	20.7
EV/EBITDA - at target price (x)	52.5	50.5	33.2	25.3	21.3
P/BV (x)	7.1	7.6	7.7	7.5	7.4
P/BV - at target price (x)	7.3	7.8	7.9	7.7	7.5
P/CFO (x)	57.4	39.0	40.3	28.9	25.2
Price/sales (x)	10.7	10.6	8.8	7.7	7.0
Dividend yield (%)	1.9	1.9	1.9	2.5	3.1
FCF Yield (%)	0.9	1.8	1.7	2.3	3.5
(Bt)					
Normalized EPS	1.5	1.6	3.1	4.2	5.1
EPS	1.5	1.5	3.1	4.2	5.1
DPS	3.2	3.2	3.2	4.2	5.1
BV/share	23.3	21.8	21.6	22.1	22.6
CFO/share	2.9	4.3	4.1	5.7	6.6
FCF/share	1.6	3.1	2.8	3.9	5.8

Sources: Company data, Thanachart estimates

Reduction of price discounts should support margin

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(33.1)	0.7	21.4	13.6	9.7
Net profit (%)	(67.9)	1.0	101.2	36.9	21.7
EPS (%)	(67.9)	1.0	101.2	36.9	21.7
Normalized profit (%)	(68.1)	6.2	92.0	36.9	21.7
Normalized EPS (%)	(68.2)	6.2	92.0	36.9	21.7
Dividend payout ratio (%)	211.2	209.2	105.0	100.0	100.0
Operating performance					
Gross margin (%)	37.7	37.7	41.2	43.7	45.2
Operating margin (%)	10.1	11.1	17.9	22.4	25.3
EBITDA margin (%)	20.0	20.6	25.9	29.8	32.1
Net margin (%)	9.9	10.6	16.4	19.8	21.9
D/E (incl. minor) (x)	0.1	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)
Interest coverage - EBIT (x)	9.7	11.5	468.2	490.8	na
Interest coverage - EBITDA (x)	19.3	21.4	na	na	na
ROA - using norm profit (%)	4.8	5.7	11.6	15.5	18.2
ROE - using norm profit (%)	6.2	7.1	14.2	19.3	22.9
DuPont					
ROE - using after tax profit (%)	6.3	7.3	14.4	19.4	23.1
- asset turnover (x)	0.5	0.6	0.7	0.8	0.8
- operating margin (%)	12.1	13.3	19.4	23.8	26.7
- leverage (x)	1.3	1.3	1.2	1.2	1.3
- interest burden (%)	91.5	92.7	99.8	99.8	99.9
- tax burden (%)	89.1	85.9	85.0	83.0	82.0
WACC (%)	5.9	5.9	5.9	5.9	5.9
ROIC (%)	7.9	9.2	20.1	27.8	33.6
NOPAT (Bt m)	1,108	1,183	2,290	3,181	3,884
invested capital (Bt m)	12,912	11,374	11,429	11,550	10,838

Sources: Company data, Thanachart estimates

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