BUY (Unchanged)

Change in Numbers

TP: Bt 29.00 (From: Bt 27.00)

Upside : 16.0%

8 APRIL 2022

Bangkok Dusit Medical (BDMS TB)

Higher-quality turnaround

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BDMS is our top sector pick as we expect its earnings turnaround to materialize along with stronger foundations to capture more market segments to secure increased long-term growth and higher profitability. We value BDMS at Bt29.0.

Thanachart Securities

Our top sector pick

This report is a part of Healthcare sector – ***A valuation mismatch***, dated 8 April 2022. BDMS remains our top sector pick with a turnaround story on all horizons from domestic patients now, foreign patients later and then long-term structural growth strategies. We also expect the growth strategies to lead to higher-quality earnings. We raise our earnings estimates by 14/11/10% in 2022-24F to reflect BDMS's stronger-than-expected business turnaround since 4Q21 and improved long-term growth prospects from a more solid strategy which should result in ROE increasing to 14.6% in 2025F vs. 12.2% in 2019. We value BDMS using DCF methodology with a 12-month TP (2022F base year) of Bt29.0/share (from Bt27.0 previously).

Long-term growth strategies

BDMS's growth strategies are 1) to capture more market segments via greater social security scheme (SSS) service penetration; 2) to organize more co-insurance and raise its insurance-pay ratio to boost patient affordability and stickiness to its hospital group; 3) to be cost and thus price competitive to increase patient affordability and reduce the risk of market share losses to new rivals; 4) to vertically integrate its business more to increase revenue sources and be competitive; and 5) to expand into digital healthcare services amid the new mega-trend. We expect these strategies to result in stronger and more sustainable growth with higher asset turnover and ROE for the company.

Also a nearer-term turnaround play

BDMS has a decent growth outlook on all horizons in our view. This year's growth is from a turnaround of domestic patient revenue which has already exceeded 2019's level. Next we expect a strong rebound of fly-in patients from 2023F. Note that we estimate foreign patient revenue at 67/81/95% of the 2019 level in 2022-24F. And the above growth strategies should continue to deliver their results in the long term. We estimate BDMS's earnings growth at 16/15/22% in 2022-24F.

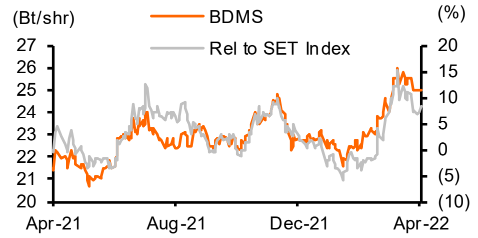
ROE factors

We expect BDMS to not only deliver growth but higher-quality growth and we estimate ROE to rise to 14.6% in 2025F from 10.8% this year and 12.2% in 2019. A key ROE booster is high utilization of its assets where BDMS plans to expand its patient base to more segments, including social security patients. A turnaround of foreign patients, who normally require more complex treatments with higher billing sizes, should also help boost margins. We estimate EBIT margin to rise to 10.7/11.6/13.3% in 2022-24F from 9.9/7.1/9.9% in 2019-21. BDMS plans to expand bed capacity by only 8.8% over the next five years from 8,269 beds presently.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	71,541	76,833	82,541	90,649
Net profit	7,936	9,204	10,610	12,905
Consensus NP	—	9,186	10,601	12,188
Diff frm cons (%)	—	*0.2*	*0.1*	*5.9*
Norm profit	7,936	9,204	10,610	12,905
Prev. Norm profit	—	8,110	9,563	11,760
Chg frm prev (%)	—	*13.5*	*10.9*	*9.7*
Norm EPS (Bt)	0.5	0.6	0.7	0.8
Norm EPS grw (%)	31.3	16.0	15.3	21.6
Norm PE (x)	50.1	43.2	37.4	30.8
EV/EBITDA (x)	28.9	26.2	23.3	19.6
P/BV (x)	4.7	4.6	4.3	4.0
Div yield (%)	1.8	1.3	1.5	1.9
ROE (%)	9.2	10.8	11.9	13.6
Net D/E (%)	3.5	(2.5)	(10.7)	(19.1)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 7-Apr-22 (Bt)	25.00
Market Cap (US$ m)	11,857.9
Listed Shares (m shares)	15,892.0
Free Float (%)	66.0
Avg Daily Turnover (US$ m)	26.8
12M Price H/L (Bt)	26.00/20.70
Sector	Health Care
Major Shareholder	Prasartthongosot Family 17.9%

Sources: Bloomberg, Company data, Thanachart estimates

BDMS's long-term growth strategies

Five business strategies …

Bangkok Dusit Medical Services Pcl (BDMS) has five business strategies to sustain its long-term growth prospects:

1) Greater focus on SSS

First, besides BDMS expanding its self-pay market from the mid-to high-end segment, it has also focused more on the Social Security Scheme (SSS) segment. Previously, there were five hospitals in BDMS's mid-tier hospital portfolio providing SSS services – Phyathai Sriracha, Phyathai Chokchai 4, Paolo Kaset, Paolo Samutprakarn and Paolo Phrapradaeng. This year, there are two more hospitals in BDMS's mid-tier hospital portfolio to participate in the SSS. The first one is Phyathai Nawamin Hospital in Bangkok and the other is Dibuk Hospital in Phuket. Management expects its number of registered persons to increase from 580K to 600K+ this year.

2) Organizing more co-insurance schemes

Second, BDMS still expects to organize more co-insurance schemes with life insurance companies. It targets to raise the insurance-pay ratio to boost patient affordability and stickiness to its hospital group. The ratio is targeted to increase to 40% in five years from 31% in 2021 and 24% in 2016.

3) Cost and price competitive

Third, the company has been focusing on co-procurement costs. The lower medical supply costs will allow BDMS to offer value-based pricing to patients. The greater the increase in patients' affordability, the less risk of BDMS losing market share to new competitors.

4) To have more vertically integrated businesses

Fourth, BDMS targets to expand to more vertically integrated businesses such as laboratories and medicine production by using its owned brand and drug stores to increase revenue sources and be competitive.

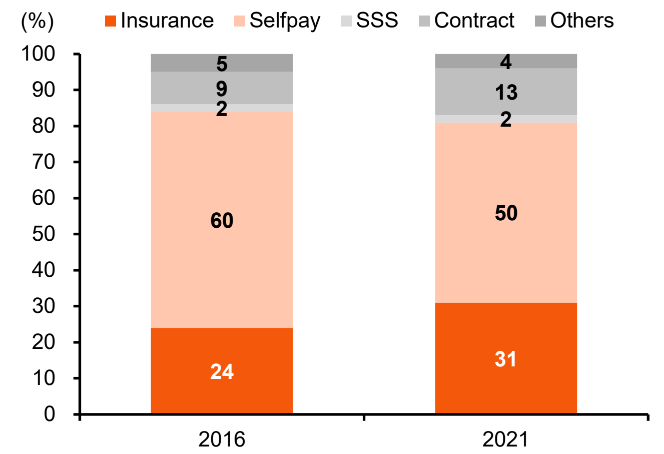
5) Expansion into the digital health ecosystem

Lastly, management targets to double its customer base in Thailand over the next five years by transforming care delivery through a new digital health ecosystem in order to improve customer experience and reduce costs. BDMS expects the new platform of services to add overall revenue of 10-15% over the next five years. Total investment cost for the project is Bt500m in 2022. We see the new digital platform raising BDMS's profitability in the long term.

These strategies should result in higher ROA and ROE

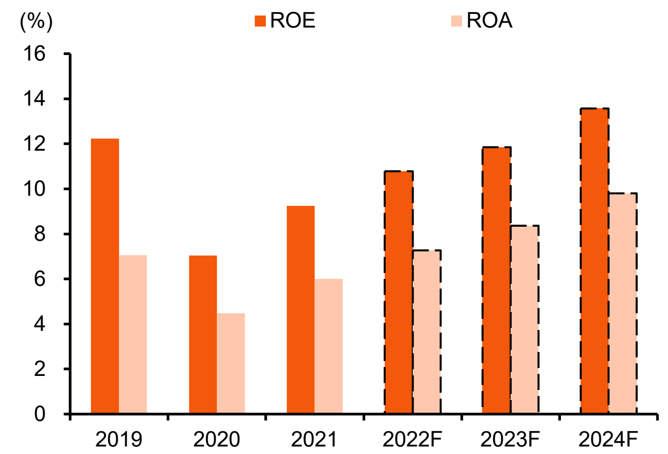
We expect these strategies to result in stronger and more sustainable earnings growth with higher asset turnover and ROE for the company.

Ex 1: Patient Breakdown By Type Of Payment



Source: Company data

Ex 2: Rising Profitability



Sources: Company data, Thanachart estimates

Boosting our earnings

Raising our earnings by 14/11/10% in 2022-24F

We raise our earnings estimates by 14/11/10% in 2022-24F to reflect the stronger-than-expected business turnaround since 4Q21 and higher long-term growth from a more solid strategy. Details are shown in Exhibit 3 below. Given our earnings upgrades, our DCF-based 12-month TP, using a 2022F base year, is revised up to Bt29.0/share from Bt27.0.

Ex 3: Changes In Our Key Assumptions And Earnings Revisions

	2020A	2021A	2022F	2023F	2024F
Foreign patients - IPD (people/year)					
- New	35,877	38,548	50,112	57,629	63,391
- Old			36,325	49,039	61,299
- Change (%)			38.0	17.5	3.4
Revenue from COVID-19 services (Bt m)					
- New	-	10,184	6,086	1,304	730
- Old			5,810	1,299	754
- Change (%)			*4.7*	*0.4*	*(3.1)*
Gross margin (%)					
- New	28.8	30.9	31.1	32.0	32.8
- Old			29.9	30.6	31.4
- Change (pp)			*1.1*	*1.4*	*1.4*
SG&A to sales (%)					
- New	21.7	21.0	20.3	20.4	19.5
- Old			20.8	20.8	20.4
- Change (pp)			*(0.5)*	*(0.5)*	*(0.9)*
Interest expenses (Bt m)					
- New	871	728	516	316	192
- Old			614	430	266
- Change (%)			*(15.9)*	*(26.5)*	*(28.0)*
Normalized profit (Bt m)					
- New	6,045	7,936	9,204	10,610	12,905
- Old			8,110	9,563	11,760
- Change (%)			*13.5*	*10.9*	*9.7*

Sources: Company data, Thanachart estimates

Ex 4: 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	14,640	16,215	18,882	21,104	22,908	24,528	26,147	27,749	29,451	31,259	33,179	35,221	—
Free cash flow	13,431	13,790	16,172	17,890	19,689	21,227	22,881	24,544	26,300	28,163	30,139	32,237	673,801
PV of free cash flow	13,394	12,293	13,609	13,959	14,438	14,630	14,819	14,939	15,046	14,475	14,491	14,502	303,121

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.6
WACC (%)	5.9
Terminal growth (%)	2.0
Enterprise value -	473,717
add investments	
Net debt (end-2021)	3,031
Minority interest	3,920
Equity value	466,766
# of shares (m)	15,892
Equity value/share (Bt)	**29.00**

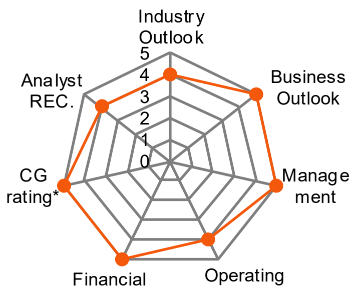
Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

Bangkok Dusit Medical Services Pcl (BDMS) was founded in 1969 and opened its first private hospital known as "Bangkok Hospital" in 1972. It is now the largest private hospital operator in Thailand in terms of patient service revenue and market capitalization. Its main focus is Bangkok and various high-growth markets nationwide.

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

- As BDMS runs 51 hospitals nationwide (including Phyathai and Paolo groups) and two in Cambodia, revenue is diversified against any particular risk in one location.
- A strong balance sheet enhances BDMS's expansion and acquisition ability.

W — Weakness

- Since depreciation expenses make up about 9.5% of its 2021 revenues, BDMS's earnings are sensitive to changes in revenue and economic conditions.

O — Opportunity

- Rising incomes make it more affordable for people to pay for better-quality healthcare services at private hospitals.
- More complex medical treatments due to the ageing trend.
- Thailand being a value-for-money destination for medical tourism.

T — Threat

- Aggressive pricing policies of direct regional rivals such as hospitals in Singapore are being supported by their governments.
- Slowdown in economy.
- Political and regulatory risks.
- Natural disasters and disease outbreaks.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	27.70	29.00	5%
Net profit 22F (Bt m)	9,186	9,204	0%
Net profit 23F (Bt m)	10,601	10,610	0%
Consensus REC	**BUY: 23**	**HOLD: 5**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our TP are slightly above the Bloomberg consensus numbers, which we attribute to us having a more bullish view on BDMS's long-term growth trajectory.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- BDMS's new hospitals may turn profitable slower than we currently expect if there is more intense competition from existing private healthcare operators or if there were to be newcomers to the healthcare market in Thailand.
- If the number of Thai and international patient flows were to be lower than our current expectations.
- If the BDMS Wellness Clinic turns profitable slower than we currently anticipate.
- If the Adjusted Relative Weight (RW) under the Social Security Scheme drops, there could be downside risk to our earnings forecasts.

Source: Thanachart

Non-COVID cash patients rebound in 2022-24F amid COVID services decline

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	65,166	71,541	76,833	82,541	90,649
Cost of sales	46,371	49,462	52,963	56,113	60,916
Gross profit	**18,795**	**22,079**	**23,871**	**26,428**	**29,733**
% gross margin	28.8%	30.9%	31.1%	32.0%	32.8%
Selling & administration expenses	14,161	15,029	15,617	16,824	17,687
Operating profit	**4,634**	**7,051**	**8,254**	**9,604**	**12,046**
% operating margin	7.1%	9.9%	10.7%	11.6%	13.3%
Depreciation & amortization	6,909	6,793	6,800	7,019	7,231
EBITDA	**11,543**	**13,844**	**15,054**	**16,623**	**19,278**
% EBITDA margin	17.7%	19.4%	19.6%	20.1%	21.3%
Non-operating income	3,935	4,250	4,303	4,651	5,011
Non-operating expenses	0	0	0	0	0
Interest expense	(871)	(728)	(516)	(316)	(192)
Pre-tax profit	**7,699**	**10,573**	**12,041**	**13,939**	**16,865**
Income tax	1,491	2,103	2,348	2,718	3,289
After-tax profit	**6,207**	**8,469**	**9,693**	**11,221**	**13,576**
% net margin	9.5%	11.8%	12.6%	13.6%	15.0%
Shares in affiliates' Earnings	273	21	24	28	31
Minority interests	(435)	(554)	(513)	(640)	(702)
Extraordinary items	1,169	0	0	0	0
NET PROFIT	**7,214**	**7,936**	**9,204**	**10,610**	**12,905**
Normalized profit	**6,045**	**7,936**	**9,204**	**10,610**	**12,905**
EPS (Bt)	0.5	0.5	0.6	0.7	0.8
Normalized EPS (Bt)	0.4	0.5	0.6	0.7	0.8

Already passed its peak capex cycle

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	30,013	24,401	20,599	25,998	32,667
Cash & cash equivalent	20,939	12,641	9,708	14,708	20,708
Account receivables	7,192	9,131	8,210	8,593	9,189
Inventories	1,855	2,005	2,031	1,999	2,003
Others	27	624	650	698	767
Investments & loans	1,542	1,600	1,600	1,600	1,600
Net fixed assets	81,313	79,689	78,303	76,692	74,856
Other assets	23,182	22,763	24,121	24,655	25,220
Total assets	**136,050**	**128,454**	**124,623**	**128,944**	**134,342**
LIABILITIES:					
Current liabilities:	11,220	15,862	13,218	14,169	15,255
Account payables	4,450	5,035	5,391	5,712	6,200
Bank overdraft & ST loans	90	76	0	0	0
Current LT debt	107	3,100	37	22	4
Others current liabilities	6,573	7,651	7,790	8,436	9,051
Total LT debt	**20,594**	**12,496**	**7,375**	**4,290**	**800**
Others LT liabilities	12,773	12,331	12,655	13,310	14,293
Total liabilities	**44,588**	**40,689**	**33,248**	**31,769**	**30,348**
Minority interest	3,553	3,920	4,433	5,072	5,775
Preferreds shares	0	0	0	0	0
Paid-up capital	1,589	1,589	1,589	1,589	1,589
Share premium	30,166	30,166	30,166	30,166	30,166
Warrants	0	0	0	0	0
Surplus	8,880	9,141	9,141	9,141	9,141
Retained earnings	**47,275**	**42,949**	**46,046**	**51,207**	**57,323**
Shareholders' equity	87,910	83,845	86,942	92,103	98,219
Liabilities & equity	**136,050**	**128,454**	**124,623**	**128,944**	**134,342**

Sources: Company data, Thanachart estimates

Strong cash flow, on our estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	7,699	10,573	12,041	13,939	16,865
Tax paid	(800)	(2,803)	(1,808)	(2,853)	(3,013)
Depreciation & amortization	6,909	6,793	6,800	7,019	7,231
Chg In w orking capital	106	(1,504)	1,251	(30)	(111)
Chg In other CA & CL / minorities	(2,060)	1,033	(421)	761	302
Cash flow from operations	**11,854**	**14,092**	**17,862**	**18,835**	**21,274**
Capex	(9,286)	(4,697)	(5,000)	(5,000)	(5,000)
Right of use	(3,811)	(19)	(300)	(300)	(300)
ST loans & investments	0	(19)	19	0	0
LT loans & investments	16,462	(58)	0	0	0
Adj for asset revaluation	2,705	262	0	0	0
Chg In other assets & liabilities	6,880	(477)	(1,148)	13	323
Cash flow from investments	**12,951**	**(5,008)**	**(6,429)**	**(5,287)**	**(4,977)**
Debt financing	(3,638)	(5,119)	(8,261)	(3,100)	(3,508)
Capital increase	0	0	0	0	0
Dividends paid	(4,741)	(12,738)	(6,107)	(5,449)	(6,789)
Warrants & other surplus	(1,082)	475	0	0	0
Cash flow from financing	**(9,461)**	**(17,381)**	**(14,367)**	**(8,549)**	**(10,297)**
Free cash flow	**2,567**	**9,394**	**12,862**	**13,835**	**16,274**

Inexpensive valuation, our view

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	65.7	50.1	43.2	37.4	30.8
Normalized PE - at target price (x)	76.2	58.1	50.1	43.4	35.7
PE (x)	55.1	50.1	43.2	37.4	30.8
PE - at target price (x)	63.9	58.1	50.1	43.4	35.7
EV/EBITDA (x)	34.4	28.9	26.2	23.3	19.6
EV/EBITDA - at target price (x)	39.9	33.5	30.5	27.1	22.9
P/BV (x)	4.5	4.7	4.6	4.3	4.0
P/BV - at target price (x)	5.2	5.5	5.3	5.0	4.7
P/CFO (x)	33.5	28.2	22.2	21.1	18.7
Price/sales (x)	6.1	5.6	5.2	4.8	4.4
Dividend yield (%)	2.2	1.8	1.3	1.5	1.9
FCF Yield (%)	0.6	2.4	3.2	3.5	4.1
(Bt)					
Normalized EPS	0.4	0.5	0.6	0.7	0.8
EPS	0.5	0.5	0.6	0.7	0.8
DPS	0.6	0.5	0.3	0.4	0.5
BV/share	5.5	5.3	5.5	5.8	6.2
CFO/share	0.7	0.9	1.1	1.2	1.3
FCF/share	0.2	0.6	0.8	0.9	1.0

Sources: Company data, Thanachart estimates

Earnings are on an uptrend, with or without COVID services

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(18.2)	9.8	7.4	7.4	9.8
Net profit (%)	(53.5)	10.0	16.0	15.3	21.6
EPS (%)	(53.8)	10.0	16.0	15.3	21.6
Normalized profit (%)	(35.8)	31.3	16.0	15.3	21.6
Normalized EPS (%)	(36.3)	31.3	16.0	15.3	21.6
Dividend payout ratio (%)	121.2	90.1	55.0	55.0	60.0
Operating performance					
Gross margin (%)	28.8	30.9	31.1	32.0	32.8
Operating margin (%)	7.1	9.9	10.7	11.6	13.3
EBITDA margin (%)	17.7	19.4	19.6	20.1	21.3
Net margin (%)	9.5	11.8	12.6	13.6	15.0
D/E (incl. minor) (x)	0.2	0.2	0.1	0.0	0.0
Net D/E (incl. minor) (x)	(0.0)	0.0	(0.0)	(0.1)	(0.2)
Interest coverage - EBIT (x)	5.3	9.7	16.0	30.4	62.8
Interest coverage - EBITDA (x)	13.3	19.0	29.2	52.6	100.5
ROA - using norm profit (%)	4.5	6.0	7.3	8.4	9.8
ROE - using norm profit (%)	7.0	9.2	10.8	11.9	13.6
DuPont					
ROE - using after tax profit (%)	7.2	9.9	11.4	12.5	14.3
- asset turnover (x)	0.5	0.5	0.6	0.7	0.7
- operating margin (%)	13.2	15.8	16.3	17.3	18.8
- leverage (x)	1.6	1.5	1.5	1.4	1.4
- interest burden (%)	89.8	93.6	95.9	97.8	98.9
- tax burden (%)	80.6	80.1	80.5	80.5	80.5
WACC (%)	5.9	5.9	5.9	5.9	5.9
ROIC (%)	3.6	6.4	7.6	9.1	11.9
NOPAT (Bt m)	3,737	5,648	6,644	7,731	9,697
invested capital (Bt m)	87,762	86,876	84,647	81,707	78,316

Sources: Company data, Thanachart estimates

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Note: Our major shareholder TCAP (Thanachart Capital Pcl) which holding 50.96% of Thanachart Securities and also TCAP holding 100% of Thanachart SPV1 Co. Ltd. TCAP and Thanachart SPV1 Co. Ltd has stake in THANI for 60% and being the major shareholder of THANI.

Note: Thanachart Capital Public Company Limited (TCAP), TMBThanachart Bank Public Company Limited (TTB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 23% of the shareholding in TMBThanachart Bank Pcl.

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Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

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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