Small Cap Research

BUY (Unchanged)

Change in Numbers

TP: Bt 14.50 (Unchanged)

Upside : 17.9%

8 APRIL 2022

Praram 9 Hospital Pcl. (PR9 TB)

A good choice for growth

SIRIPORN ARUNOTHAI
662 – 779 9113
siriporn.aru@thanachartsec.co.th

We reaffirm our BUY call on PR9 seeing it as the top growth-stock choice in the sector. PR9 is growing its revenue base from its excellence centers which are boosting growth from volume, complexity and the leverage effect. We value PR9 at Bt14.5/share.

Thanachart Securities

A strong growth stock

This report is a part of *Healthcare sector* – ***A valuation mismatch***, dated 8 April 2022. We reaffirm our BUY rating on PR9 as our No.3 pick in the sector after Bangkok Dusit Medical Services (BDMS TB, BUY, Bt25.00) and Chularat Hospital (CHG TB, BUY, Bt3.94). PR9 has the strongest earnings growth outlook after Bumrungrad Hospital (BH TB, HOLD, Bt159.50). However, PR9 is priced at a PE gap of 22x to BH, on which we have a HOLD rating. We believe PR9 has clear growth drivers that are coming not only from the post-COVID turnaround cycle but also long-term underlying growth. We estimate its earnings growth at 35/18/16% and non-COVID growth at 64/33/16% in 2022-24F. Our DCF-based 12-month TP (2022F base year) is Bt14.5.

Growth factors

PR9 listed in 2018 to finance its capacity expansion plan. The expansion was soft launched in 2H20 and completed in early 2021 with capacity hikes of 36% for IPD and 73% for OPD. With capacity unlocking, PR9 moved its OPD in the old building to the new one and opened seven more excellence centers (Exhibit 2) in 2H20-2021. Meanwhile, the OPD space at the old building is to be replaced by ICU and CCU which run at a 75% utilization rate. Note that PR9 plans to spend around Bt100m to construct ICU and CCU. We estimate PR9's OPD and IPD patient growth at 5/8/6% and 5/8/6% in 2022-24F, respectively. The higher volume and complexity are driving its operating margin. Like BH, PR9 is a single-campus hospital and it is also enjoying a substantial operating leverage effect from utilization and revenue growth.

Low COVID service exposure

PR9 has low COVID service exposure compared to its peers. On our estimates, Exhibit 4 shows that PR9's COVID profit accounted for 28% of total profit in 2021 compared to 61% for the sector. Only BH had lower COVID exposure (6%) than PR9. We therefore expect PR9 to experience a more limited impact from falling COVID windfall revenue.

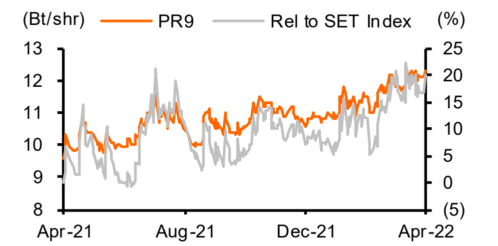
A bargain in our view

We see PR9 as a bargain choice in the Thai healthcare sector. The stock is trading on 28.7/24.3x PE and 32.8/24.7x non-COVID PE in 2022-23F. Its PE in 2019 stood at 28.0x but with its stronger earnings growth outlook and higher ROE, we believe the stock deserves a re-rating. Our TP of Bt14.5 implies a more reasonable PE of 38.6/29.1x in 2022-23F which is similar to its 2019 PE but its fundamentals are better.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	2,987	3,136	3,378	3,729
Net profit	249	337	397	459
Consensus NP	—	330	390	443
Diff frm cons (%)	—	*2.2*	*1.9*	*3.6*
Norm profit	249	337	397	459
Prev. Norm profit	—	341	399	463
Chg frm prev (%)	—	*(1.1)*	*(0.5)*	*(0.9)*
Norm EPS (Bt)	0.3	0.4	0.5	0.6
Norm EPS grw (%)	23.3	35.2	17.9	15.5
Norm PE (x)	38.8	28.7	24.3	21.1
EV/EBITDA (x)	15.3	12.2	10.5	9.1
P/BV (x)	2.3	2.2	2.1	1.9
Div yield (%)	1.1	1.6	1.8	2.1
ROE (%)	5.9	7.7	8.6	9.5
Net D/E (%)	(29.1)	(34.9)	(40.6)	(47.4)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 7-Apr-22 (Bt)	12.30
Market Cap (US$ m)	288.7
Listed Shares (m shares)	786.3
Free Float (%)	58.7
Avg Daily Turnover (US$ m)	0.4
12M Price H/L (Bt)	12.50/9.60
Sector	Health Care
Major Shareholder	Damapong family 37.14%

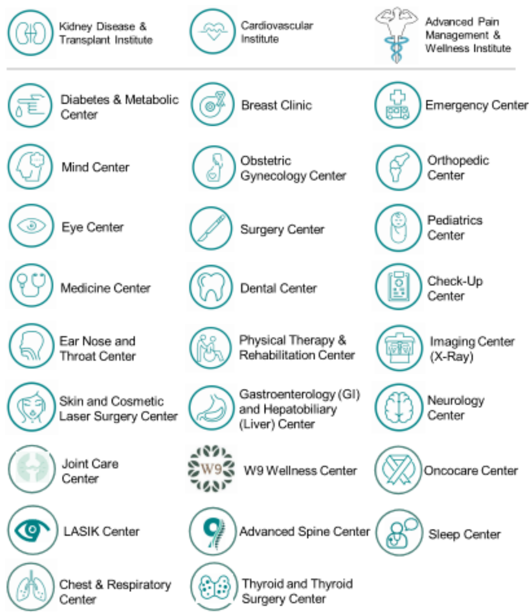
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Changes In Our Key Assumptions And Earnings Revisions

	2020A	2021A	2022F	2023F	2024F
Revenue from COVID-19 services (Bt m)					
- New		280	168	29	19
- Old			182	34	21
- Change (%)			*(7.6)*	*(13.7)*	*(10.0)*
Normalized profit (Bt m)					
- New	202	249	337	397	459
- Old			341	399	463
- Change (%)			*(1.2)*	*(0.4)*	*(0.9)*

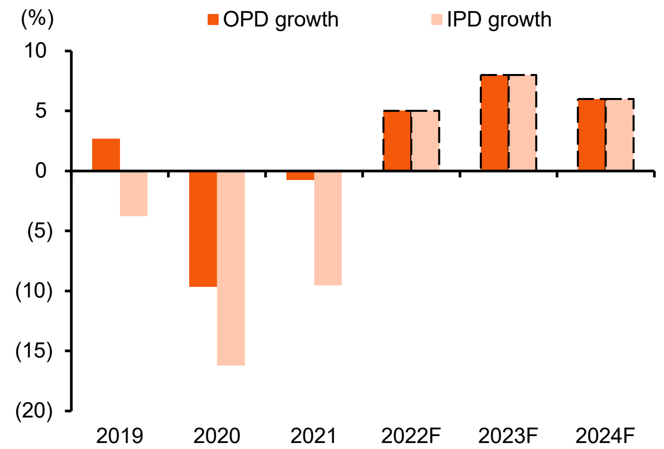
Sources: Company data, Thanachart estimates

Ex 2: Three Medical Institutes Plus 26 Medical Centers



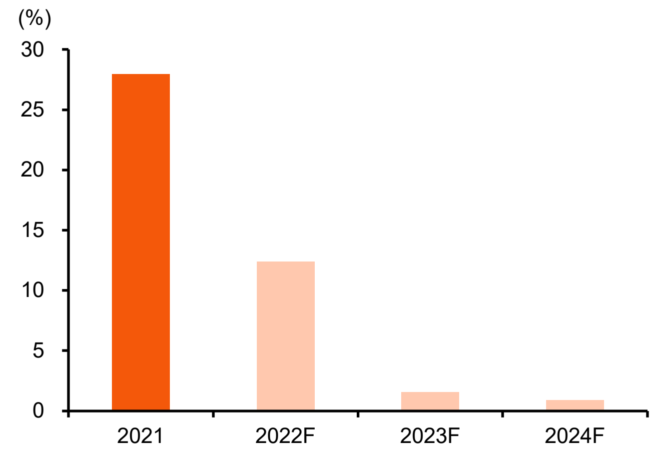
Source: Company data

Ex 3: OPD And IPD Volume Growth



Sources: Company data, Thanachart estimates

Ex 4: % Earnings Contribution From COVID Services



Sources: Company data, Thanachart estimates

Ex 5: 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	659	733	800	856	894	932	973	1,016	1,062	1,111	1,169	1,243	—
Free cash flow	351	504	621	661	683	715	745	778	813	853	901	714	12,452
PV of free cash flow	350	441	509	497	479	467	453	441	430	400	392	288	5,026

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.6
WACC (%)	6.9
Terminal growth (%)	2.0
Enterprise value - add investments	10,174
Net debt (end 2021)	(1,244)
Minority interest	0
Equity value	11,418
# of shares (m)	786
Equity value / share (Bt)	**14.5**

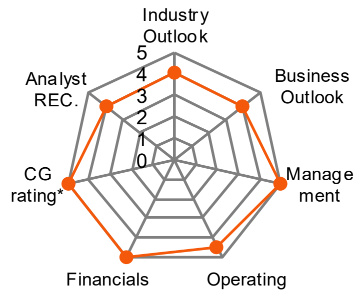
Sources: Company data, Thanachart estimates

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.

W — Weakness

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

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.

T — Threat

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

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	13.48	14.50	8%
Net profit 22F (Bt m)	330	337	2%
Net profit 23F (Bt m)	390	397	2%
Consensus REC	**BUY: 5**	**HOLD: 1**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimates and TP are higher than the Bloomberg consensus numbers, which we attribute to us having a more bullish view on PR9's growth trajectory.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- If patient numbers are lower than we currently anticipate, this would be the key downside risk to our earnings forecasts.
- If PR9 raises its billing sizes by a lower extent than we currently expect, our gross-margin and profit forecasts would be subject to downside risk.
- If PR9's ability to control costs turns out to be weaker than we currently expect, this would represent a secondary downside risk to our numbers.

Source: Thanachart

Improving non-COVID cash patients in 2022-24F

No significant investments planned in 2022-24

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	2,601	2,987	3,136	3,378	3,729
Cost of sales	1,890	2,172	2,205	2,328	2,551
Gross profit	**712**	**815**	**932**	**1,051**	**1,178**
% gross margin	27.4%	27.3%	29.7%	31.1%	31.6%
Selling & administration expenses	518	557	569	614	672
Operating profit	**193**	**257**	**362**	**436**	**506**
% operating margin	7.4%	8.6%	11.5%	12.9%	13.6%
Depreciation & amortization	213	294	302	302	300
EBITDA	**406**	**551**	**664**	**738**	**805**
% EBITDA margin	15.6%	18.5%	21.2%	21.8%	21.6%
Non-operating income	38	43	47	49	58
Non-operating expenses	0	0	0	0	0
Interest expense	(0)	(0)	(1)	(1)	(1)
Pre-tax profit	**230**	**300**	**408**	**485**	**563**
Income tax	28	51	71	87	104
After-tax profit	**202**	**249**	**337**	**397**	**459**
% net margin	7.8%	8.3%	10.7%	11.8%	12.3%
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	**202**	**249**	**337**	**397**	**459**
Normalized profit	**202**	**249**	**337**	**397**	**459**
EPS (Bt)	0.3	0.3	0.4	0.5	0.6
Normalized EPS (Bt)	0.3	0.3	0.4	0.5	0.6

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	1,208	1,603	1,921	2,304	2,790
Cash & cash equivalent	994	1,244	1,600	1,960	2,410
Account receivables	159	212	172	185	204
Inventories	49	56	54	57	63
Others	6	90	95	102	112
Investments & loans	0	0	0	0	0
Net fixed assets	3,417	3,369	3,271	3,174	3,030
Other assets	171	166	33	29	24
Total assets	**4,797**	**5,137**	**5,226**	**5,507**	**5,843**
LIABILITIES:					
Current liabilities:	497	667	573	612	665
Account payables	446	597	471	497	545
Bank overdraft & ST loans	0	0	33	40	43
Current LT debt	0	0	0	0	0
Others current liabilities	50	70	69	74	76
Total LT debt	**0**	**0**	**3**	**4**	**4**
Others LT liabilities	185	192	165	176	192
Total liabilities	**682**	**859**	**742**	**791**	**861**
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	0	0	0	0	0
Retained earnings	**1,395**	**1,557**	**1,763**	**1,995**	**2,262**
Shareholders' equity	4,115	4,278	4,484	4,716	4,982
Liabilities & equity	**4,797**	**5,137**	**5,226**	**5,507**	**5,843**

Sources: Company data, Thanachart estimates

Strong and sustainable cash inflow streams

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	230	300	408	485	563
Tax paid	(36)	(37)	(76)	(82)	(102)
Depreciation & amortization	213	294	302	302	300
Chg In w orking capital	(18)	90	(84)	10	23
Chg In other CA & CL / minorities	(3)	(79)	(1)	(8)	(11)
Cash flow from operations	**386**	**569**	**550**	**707**	**773**
Capex	(763)	(239)	(200)	(200)	(150)
Right of use	(25)	(3)	0	0	0
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	91	10	100	10	16
Cash flow from investments	**(697)**	**(232)**	**(100)**	**(190)**	**(134)**
Debt financing	0	0	36	8	4
Capital increase	0	0	0	0	0
Dividends paid	(110)	(86)	(131)	(165)	(193)
Warrants & other surplus	(16)	(0)	0	0	0
Cash flow from financing	**(126)**	**(86)**	**(95)**	**(157)**	**(189)**
Free cash flow	**(377)**	**330**	**350**	**507**	**623**

Inexpensive valuation, in our view

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	47.9	38.8	28.7	24.3	21.1
Normalized PE - at target price (x)	56.4	45.8	33.8	28.7	24.8
PE (x)	47.9	38.8	28.7	24.3	21.1
PE - at target price (x)	56.4	45.8	33.8	28.7	24.8
EV/EBITDA (x)	21.4	15.3	12.2	10.5	9.1
EV/EBITDA - at target price (x)	25.6	18.4	14.8	12.9	11.2
P/BV (x)	2.4	2.3	2.2	2.1	1.9
P/BV - at target price (x)	2.8	2.7	2.5	2.4	2.3
P/CFO (x)	25.1	17.0	17.6	13.7	12.5
Price/sales (x)	3.7	3.2	3.1	2.9	2.6
Dividend yield (%)	0.9	1.1	1.6	1.8	2.1
FCF Yield (%)	(3.9)	3.4	3.6	5.2	6.4
(Bt)					
Normalized EPS	0.3	0.3	0.4	0.5	0.6
EPS	0.3	0.3	0.4	0.5	0.6
DPS	0.1	0.1	0.2	0.2	0.3
BV/share	5.2	5.4	5.7	6.0	6.3
CFO/share	0.5	0.7	0.7	0.9	1.0
FCF/share	(0.5)	0.4	0.4	0.6	0.8

Sources: Company data, Thanachart estimates

Earnings on a turnaround trend

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(8.7)	14.8	5.0	7.7	10.4
Net profit (%)	(29.0)	23.3	35.2	17.9	15.5
EPS (%)	(74.3)	23.3	35.2	17.9	15.5
Normalized profit (%)	(29.0)	23.3	35.2	17.9	15.5
Normalized EPS (%)	(29.0)	23.3	35.2	17.9	15.5
Dividend payout ratio (%)	42.8	44.2	45.0	45.0	45.0
Operating performance					
Gross margin (%)	27.4	27.3	29.7	31.1	31.6
Operating margin (%)	7.4	8.6	11.5	12.9	13.6
EBITDA margin (%)	15.6	18.5	21.2	21.8	21.6
Net margin (%)	7.8	8.3	10.7	11.8	12.3
D/E (incl. minor) (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.2)	(0.3)	(0.3)	(0.4)	(0.5)
Interest coverage - EBIT (x)	410.88	na	na	459.57	na
Interest coverage - EBITDA (x)	na	na	na	na	na
ROA - using norm profit (%)	4.2	5.0	6.5	7.4	8.1
ROE - using norm profit (%)	5.0	5.9	7.7	8.6	9.5
DuPont					
ROE - using after tax profit (%)	5.0	5.9	7.7	8.6	9.5
- asset turnover (x)	0.5	0.6	0.6	0.6	0.7
- operating margin (%)	8.9	10.1	13.0	14.4	15.1
- leverage (x)	1.2	1.2	1.2	1.2	1.2
- interest burden (%)	99.8	99.8	99.8	99.8	99.9
- tax burden (%)	87.7	83.0	82.5	82.0	81.5
WACC (%)	6.9	6.9	6.9	6.9	6.9
ROIC (%)	6.5	6.8	9.9	12.2	14.7
NOPAT (Bt m)	169	214	299	358	412
invested capital (Bt m)	3,121	3,034	2,920	2,800	2,621

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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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.

Thanachart Securities Pcl.

Research Team
19 Floor, MBK Tower
444 Phayathai Road, Pathumwan Road, Bangkok 10330
Tel: 662 - 779-9119
Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA
Head of Research
Tel: 662-779-9199
pimpaka.nic@thanachartsec.co.th

Pattarawan Wangmingmat
Senior Technical Analyst
Tel: 662-779-9105
pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut
Property, Retail
Tel: 662-779-9109
phannarai.von@thanachartsec.co.th

Sarachada Sornsong
Bank, Finance
Tel: 662-779-9106
sarachada.sor@thanachartsec.co.th

Witchanan Tambamroong
Technical Analyst
Tel: 662-779-9123
witchanan.tam@thanachartsec.co.th

Adisak Phupiphathirungul, CFA
Retail Market Strategy
Tel: 662-779-9120
adisak.phu@thanachartsec.co.th

Nuttapop Prasitsuksant
Telecom, Utilities
Tel: 662-483-8296
nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanpoom
Auto, Industrial Estate, Media, Prop. Fund
Tel: 662-483-8297
rata.lim@thanachartsec.co.th

Siriporn Arunothai
Small Cap, Healthcare, Hotel
Tel: 662-779-9113
siriporn.aru@thanachartsec.co.th

Sittichet Rungrassameephat
Analyst, Quantitative
Tel: 662-483-8303
sittichet.run@thanachartsec.co.th

Chak Reungsinpinya
Thematic Research, Paper
Tel: 662-779-9104
chak.reu@thanachartsec.co.th

Pattadol Bunnak
Electronics, Food & Beverage, Shipping
Tel: 662-483-8298
pattadol.bun@thanachartsec.co.th

Saksid Phadthananarak
Construction, Transportation
Tel: 662-779-9112
saksid.pha@thanachartsec.co.th

Yupapan Polpornprasert
Energy, Petrochemical
Tel: 662-779-9110
yupapan.pol@thanachartsec.co.th

Thaloengsak Kucharoenpaisan
Analyst, Retail Market
Tel: 662-483-8304
thaloengsak.kuc@thanachartsec.co.th