

BUY (From: HOLD)
Change in Recommendation

TP: Bt 185.00 (From: Bt 170.00)
Upside : 14.6%

5 MAY 2022

Bumrungrad Hospital Pcl (BH TB)

Double-factor recovery

We upgrade our call on BH to BUY from Hold given its faster-than-expected business recovery. After our earnings hikes, BH's valuation at 34.7x PE in 2023F when we expect the full-year momentum of a foreign patient recovery, no longer looks expensive to us in light of 127/28% EPS growth in 2022-23F.



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Upgrading to BUY

We upgrade BH to BUY (from Hold) due to its faster-than-expected business turnaround from two factors of a return in foreign patients and rising margin from higher revenue intensity. We lift our earnings by 18/11/5% in 2022-24F and DCF-based 12-month TP, using a 2022F base year, to Bt185/share (from Bt170). After the upgrades BH's PE still looks high at 44.3x in 2022F but it falls to 34.7x in 2023F, which we consider to be a more normalized year, vs. its 39.4x five-year pre-COVID average. The 34.7x PE against 127/28/16% EPS growth in 2022-24F also looks justified to us for a big-cap healthcare stock. Although Bangkok Dusit Medical Services (BDMS, BUY, Bt24.90) remains our top sector pick, we see BH as a more direct play on Thailand's reopening theme given that BH's foreign patient revenue made up 67% of the total vs. BDMS's 30% in 2019.

Swift recovery in foreign patients

BH's revenue grew 34% q-q in 4Q21 and 6% q-q in 1Q22, mainly driven by foreign patient growth of 58% q-q and 18% q-q. Strong growth was seen with fly-in foreign patients from the Middle East (UAE, Qatar and Oman), Bangladesh and Myanmar due to pent-up healthcare demand and Thailand's gradual reopening since November 2021. We expect the strong foreign patient flows to continue after the further easing of Thailand's entry rules in April and May and potentially a full reopening from June. Higher oil prices also support demand from Middle East patients, who comprise the majority of BH's fly-in patients. We estimate BH's foreign patient revenue growth at 60/25/14% in 2022-24F.

Higher intensity boosts margin

BH's strategy is to focus more on super tertiary care and specialty centers such as its Organ and Tissue Transplantation center. That provides support to revenue intensity. We estimate BH's EBIT margin at 21/24/26% in 2022-24F vs. 10/11% in 2020-21 driven by the operating leverage effect, lower price discounts, growing number of foreign patients, rising revenue intensity, and cost controls. Note that BH's price discount in 1Q22 fell to 13.7% from 17.6% in 4Q21. The mix of foreign patient revenue rose to 55.5% in 1Q22 vs. 46.1% in 2021. Annualized foreign patient revenue in 1Q22 was at only 74% of 2019's level.

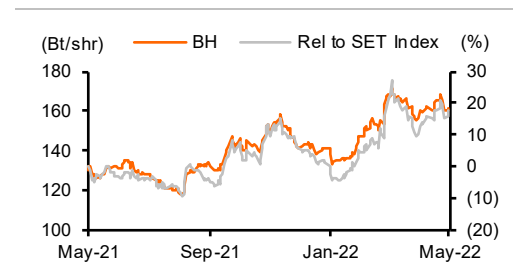
Two key risks factored in

Our model factors in two key risks to BH's turnaround momentum. First, its plan to cut price discounts may affect its Thai patient recovery. Second, competition is intensifying in the post-COVID period from new rivals such as MedPark Hospital. Competitors are likely to focus more on non-COVID patients. We conservatively assume no Thai patient growth for BH from 2023F.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	12,404	15,711	17,699	19,111
Net profit	1,216	2,896	3,701	4,289
Consensus NP	—	2,741	3,719	4,163
Diff frm cons (%)	—	5.7	(0.5)	3.0
Norm profit	1,274	2,896	3,701	4,289
Prev. Norm profit	—	2,446	3,348	4,073
Chg frm prev (%)	—	18.4	10.5	5.3
Norm EPS (Bt)	1.6	3.6	4.7	5.4
Norm EPS grw (%)	6.2	127.3	27.8	15.9
Norm PE (x)	100.7	44.3	34.7	29.9
EV/EBITDA (x)	47.9	27.6	22.1	19.3
P/BV (x)	7.4	7.3	7.2	7.1
Div yield (%)	2.0	2.3	2.9	3.3
ROE (%)	7.1	16.7	21.0	23.8
Net D/E (%)	(33.6)	(34.4)	(35.2)	(37.9)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 5-May-22 (Bt)	161.50
Market Cap (US\$ m)	3,770.5
Listed Shares (m shares)	794.9
Free Float (%)	49.0
Avg Daily Turnover (US\$ m)	12.1
12M Price H/L (Bt)	171.50/117.50
Sector	Health Care
Major Shareholder	Sophonpanich family ~35%

Sources: Bloomberg, Company data, Thanachart estimates

Lifting our earnings and TP

We raise our earnings by 18/11/5% in 2022-24F

We boost our earnings estimates for Bumrungrad Hospital Pcl (BH) by 18/11/5% in 2022-24F to reflect its stronger-than-expected foreign patients and margin. We also adopt a more conservative assumption whereby we assume no growth in Thai patients from 2023F. Details are shown in Exhibit 1. Given our earnings upgrades, our DCF-based 12-month TP, using a 2022F base year, is revised up to Bt185/share from Bt170 previously.

Ex 1: Changes In Our Key Assumptions And Earnings Revisions

	2020	2021	2022F	2023F	2024F
Foreign patient growth - OPD (%)					
- New	(35.0)	10.0	15.0	10.0	5.0
- Old			3.0	2.0	2.0
- Change (pp)			12.0	8.0	3.0
Foreign patient growth - IPD (%)					
- New	(55.0)	10.0	70.0	20.0	10.0
- Old			60.0	30.0	15.0
- Change (pp)			10.0	(10.0)	(5.0)
Thai patient growth - OPD (%)					
- New	(17.0)	5.0	3.0	—	—
- Old			3.0	1.0	1.0
- Change (pp)			—	(1.0)	(1.0)
Thai patient growth - IPD (%)					
- New	(5.0)	—	3.0	—	—
- Old			3.0	1.0	1.0
- Change (pp)			—	(1.0)	(1.0)
International patient revenue (Bt m)					
- New	6,392	5,743	8,695	10,867	12,367
- Old			8,146	10,177	11,748
- Change (%)			6.7	6.8	5.3
Total revenue (Bt m)					
- New	12,315	12,404	15,711	17,699	19,111
- Old			15,053	17,105	18,757
- Change (%)			4.4	3.5	1.9
Average gross margin (%)					
- New	37.7	37.7	41.7	44.2	45.6
- Old			41.2	43.7	45.2
- Change (pp)			0.5	0.4	0.3
SG&A to sales (%)					
- New	27.6	26.6	21.1	20.1	19.4
- Old			23.3	21.3	20.0
- Change (pp)			(2.2)	(1.2)	(0.5)
Normalized profit (Bt m)					
- New	1,199	1,274	2,896	3,701	4,289
- Old			2,446	3,348	4,073
- Change (%)			18.4	10.5	5.3

Sources: Company data, Thanachart estimates

We upgrade to BUY from Hold

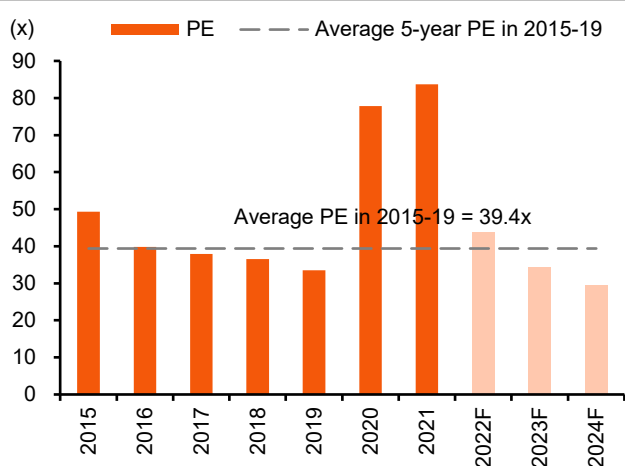
We upgrade our rating on BH from Hold to BUY for the following reasons:

First, we estimate BH's earnings growth to turn around with 127/28/16% growth in 2022-24F, driven by improving foreign patients, widening gross margin and the low-base effect in 2021.

Second, after our earnings hikes, BH's PE still looks high at 44.3x in 2022F but it falls to 34.7x in 2023F, which we consider to be a more normalized year, vs. its 39.4x five-year pre-COVID average. The 34.7x PE in light of 127/28/16% EPS growth in 2022-24F also looks justified to us for a big-cap healthcare stock.

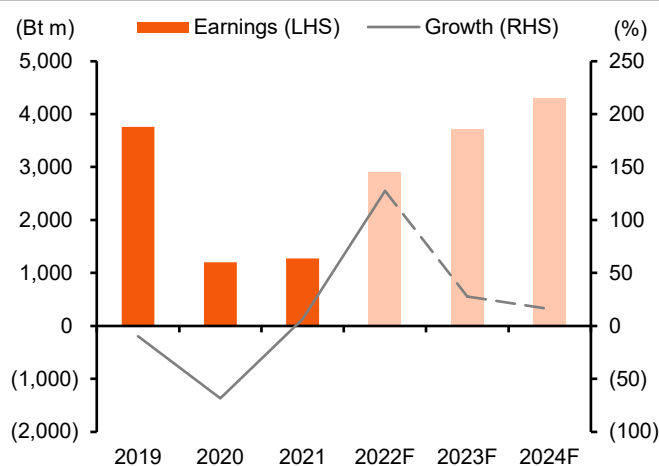
Third, we see BH is a direct play on Thailand's reopening theme given that BH's foreign patient revenue accounted for 67% of its total revenue in 2019.

Ex 2: BH's PE Multiple



Sources: Bloomberg, Company data, Thanachart estimates

Ex 3: BH's Earnings And Growth



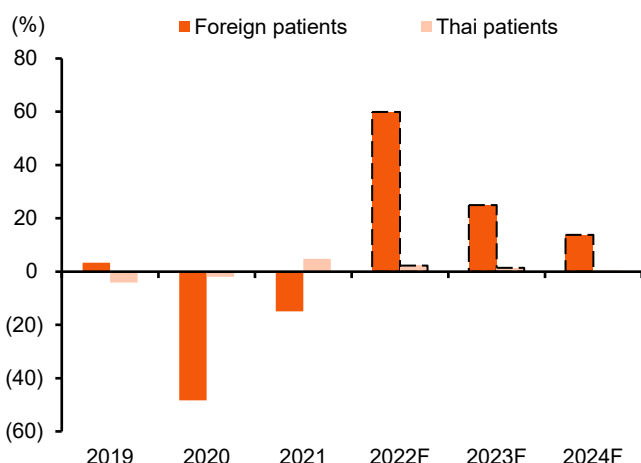
Sources: Company data, Thanachart estimates

Two factors to drive earnings growth

Two key earnings drivers ...

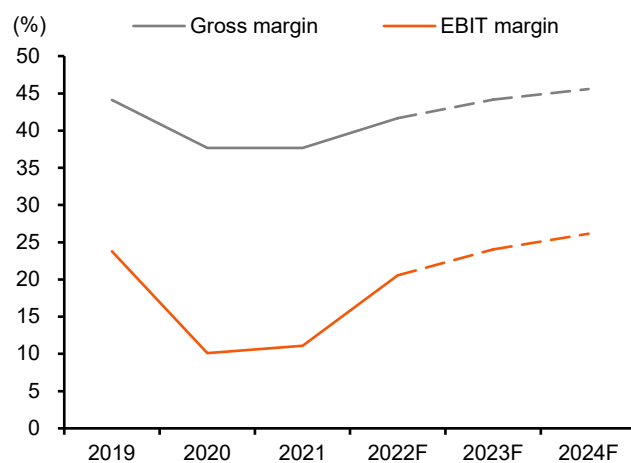
We estimate BH's earnings to grow strongly with 127/28/16% EPS growth in 2022-24F. Two key factors that we expect to drive BH's earnings growth are a swift recovery in foreign patients and margin expansion.

Ex 4: Foreign Patient Revenue Growth



Sources: Company data, Thanachart estimates

Ex 5: Gross Margin And EBIT Margin



Sources: Company data, Thanachart estimates

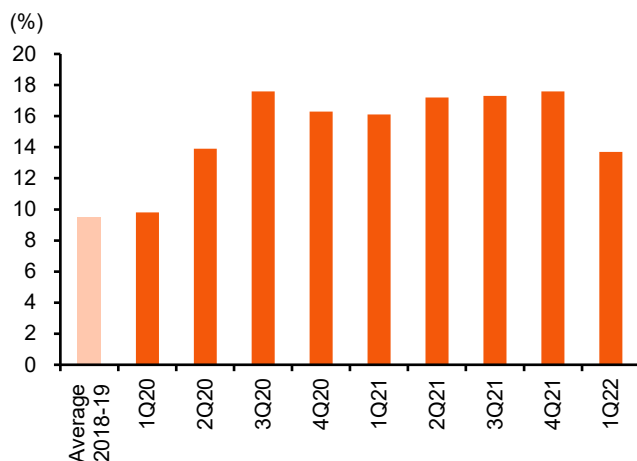
Foreign patient revenue growth

After Thailand's gradual reopening from November 2021, there was a swift recovery in the number of BH's fly-in foreign patients from the Middle East, Bangladesh and Myanmar in 4Q21 and 1Q22. We expect the trend to continue in light of sustained high volumes of enquiries and appointment requests from foreign patients, the further easing of Thailand's entry rules in April and May and potentially a full reopening from June this year. We estimate BH's foreign patient revenue growth at 60/25/14% in 2022-24F.

Margin expansion

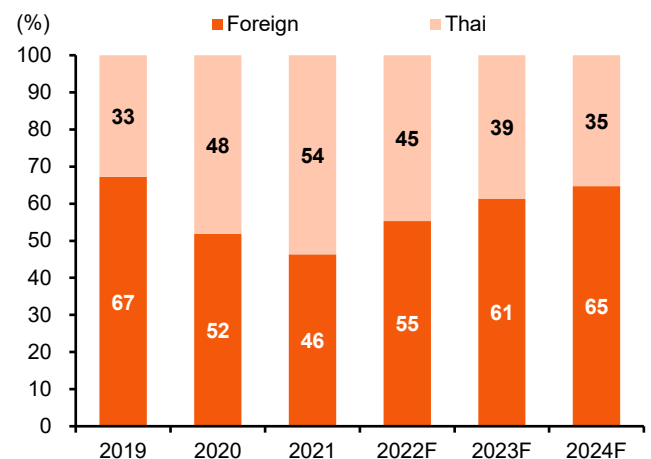
Another driver for BH's earnings is EBIT margin expansion. With BH's strategy to focus more on super tertiary care and specialty centers such as its Organ and Tissue Transplantation center (including heart, kidney, liver, cornea and bone marrow transplants), together with the operating leverage effect, lower price discounts, and growing number of foreign patients, we estimate BH's EBIT margin to check in at 21/24/26% in 2022-24F vs. 10/11% in 2020-21. Note that BH's price discount in 1Q22 fell to 13.7% from 17.6% in 4Q21. BH targets the discount rate to continue to fall to below 10% by the end of this year. It also expects the mix of foreign patient revenue to increase from 52/46% in 2020/21 to 55/61/65% in 2022-24F.

Ex 6: Discount Rate



Sources: Company data, Thanachart estimates

Ex 7: Revenue Mix



Sources: Company data, Thanachart estimates

Ex 8: 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	4,404	5,489	6,292	6,984	7,590	8,183	8,781	9,383	10,000	10,659	11,361	12,056	—
Free cash flow	2,614	3,221	4,413	5,066	5,611	6,124	7,133	7,644	8,168	8,725	9,319	9,835	205,427
PV of free cash flow	2,607	2,871	3,712	3,952	4,113	4,219	4,618	4,650	4,670	4,483	4,479	4,423	92,379
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	0.6												
WACC (%)	5.9												
Terminal growth (%)	2.0												
Enterprise value - add investments	141,176												
Net debt (end-2021)	(5,912)												
Minority interest	332												
Equity value	146,757												
# of shares (m)	795												
Equity value/share (Bt)	185												

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 9: Valuation Comparison With Regional Peers

Name	BBG code	Country	Market Cap (US\$ m)	EPS growth		— PE —		— P/BV —		EV/EBITDA		— Div yield —	
				22F (%)	23F (%)	22F (x)	23F (x)	22F (x)	23F (x)	22F (x)	23F (x)	22F (%)	23F (%)
Ramsay Healthcare	RHC AU	Australia	12,964	(20.7)	68.8	51.2	30.3	4.4	4.1	13.6	11.2	1.4	2.0
Guangzhou Pharmaceutical	874 HK	Hong Kong	6,936	3.6	8.0	8.7	8.0	1.1	0.9	6.6	6.2	1.6	1.6
Lijun Int'l Pharmaceutical	2005 HK	Hong Kong	1,419	57.8	23.7	9.1	7.4	1.6	1.4	7.7	6.4	3.4	4.0
Apollo Hospitals Enterprise	APHS IN	India	7,449	501.6	27.6	61.1	47.9	10.1	8.5	26.1	22.2	0.2	0.3
Fortis Healthcare India	FORH IN	India	2,495	na	42.6	51.3	36.0	2.9	2.6	19.0	17.1	0.0	0.0
KPJ Healthcare	KPJ MK	Malaysia	924	177.3	33.3	28.0	21.0	1.8	1.7	11.4	10.3	1.8	2.4
IHH Healthcare Bhd	IHH MK	Malaysia	13,359	(6.9)	13.8	35.1	30.8	2.3	2.2	15.6	14.5	0.9	1.1
Ryman	RYM NZ	New Zealand	2,921	(45.6)	35.2	19.5	14.4	1.4	1.2	19.3	16.4	2.2	2.5
Raffles Medical Group	RFMD SP	Singapore	1,631	(15.7)	7.9	31.8	29.5	2.3	2.2	15.5	14.8	2.1	2.0
Bangkok Chain Hospital *	BCH TB	Thailand	1,553	(46.7)	(50.9)	14.5	29.5	3.7	3.6	9.4	15.5	3.5	1.7
Bangkok Dusit Medical *	BDMS TB	Thailand	11,622	16.0	15.3	43.0	37.3	4.6	4.3	26.1	23.2	1.3	1.5
Bumrungrad Hospital *	BH TB	Thailand	3,770	127.3	27.8	44.3	34.7	7.3	7.2	27.6	22.1	2.3	2.9
Chularat Hospital *	CHG TB	Thailand	1,144	(58.4)	(18.8)	22.3	27.4	5.1	4.9	15.6	18.4	3.1	2.6
Ladprao General Hospital *	LPH TB	Thailand	119	(49.9)	(17.6)	17.5	21.2	2.3	2.3	9.7	11.4	4.3	3.5
Praram 9 Hospital *	PR9 TB	Thailand	305	35.2	17.9	30.8	26.1	2.3	2.2	13.3	11.5	1.5	1.7
Rajthanee Hospital *	RJH TB	Thailand	297	(23.1)	(41.5)	13.0	22.3	5.0	5.1	9.4	15.0	6.1	3.4
Ratchaphruek Hospital *	RPH TB	Thailand	103	(60.2)	(11.8)	22.0	24.9	2.1	2.0	11.7	12.3	3.5	3.1
Thonburi Healthcare Group*	THG TB	Thailand	1,381	(31.3)	(32.0)	50.1	73.8	5.1	5.0	25.4	29.5	1.2	0.8
Average				33.0	8.3	30.7	29.0	3.6	3.4	15.7	15.4	2.2	2.1

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

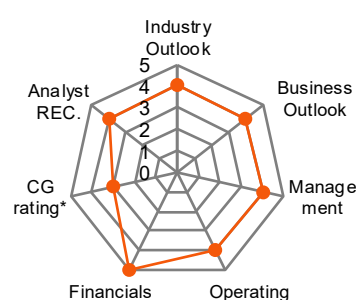
Based on 5 May 2022 closing prices

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.

O — Opportunity

- Rising incomes should 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.

W — Weakness

- Client base not well diversified.

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)	174.86	185.00	6%
Net profit 22F (Bt m)	2,741	2,896	6%
Net profit 23F (Bt m)	3,719	3,701	0%
Consensus REC	BUY: 10	HOLD: 11	SELL: 4

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022 earnings forecasts and TP are higher than the Bloomberg consensus numbers, which we attribute to us having a more bullish view on its margin expansion.

RISKS TO OUR INVESTMENT CASE

- If the number of Thai and international patients were to come in below our current expectations, this would represent the key downside risk to our call.
- If BH's billing size and margins were to be lower than our current assumptions, this would represent a secondary downside risk.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

2022-24F top-line growth
driven by foreign patient
turnaround

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	12,315	12,404	15,711	17,699	19,111
Cost of sales	7,677	7,731	9,162	9,882	10,404
Gross profit	4,638	4,673	6,549	7,817	8,707
% gross margin	37.7%	37.7%	41.7%	44.2%	45.6%
Selling & administration expenses	3,394	3,296	3,318	3,562	3,711
Operating profit	1,244	1,377	3,231	4,254	4,997
% operating margin	10.1%	11.1%	20.6%	24.0%	26.1%
Depreciation & amortization	1,220	1,180	1,202	1,264	1,295
EBITDA	2,464	2,557	4,433	5,519	6,292
% EBITDA margin	20.0%	20.6%	28.2%	31.2%	32.9%
Non-operating income	252	269	211	243	276
Non-operating expenses	0	0	0	0	0
Interest expense	(128)	(120)	(2)	(2)	(1)
Pre-tax profit	1,369	1,527	3,440	4,496	5,271
Income tax	150	216	516	764	949
After-tax profit	1,219	1,311	2,924	3,732	4,322
% net margin	9.9%	10.6%	18.6%	21.1%	22.6%
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	2,896	3,701	4,289
Normalized profit	1,199	1,274	2,896	3,701	4,289
EPS (Bt)	1.5	1.5	3.6	4.7	5.4
Normalized EPS (Bt)	1.5	1.6	3.6	4.7	5.4

BALANCE SHEET

Strong balance sheet

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	10,801	8,062	8,780	9,396	10,221
Cash & cash equivalent	8,138	5,936	6,150	6,450	7,050
Account receivables	2,206	1,461	1,851	2,085	2,251
Inventories	309	328	351	379	399
Others	148	338	428	482	520
Investments & loans	76	1	1	1	1
Net fixed assets	11,726	11,532	11,460	11,725	11,430
Other assets	1,619	1,261	1,206	1,151	1,126
Total assets	24,222	20,857	21,447	22,274	22,778
LIABILITIES:					
Current liabilities:	4,418	2,284	2,462	2,730	2,831
Account payables	704	805	879	948	998
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	2,497	0	2	4	2
Others current liabilities	1,217	1,479	1,581	1,779	1,831
Total LT debt	21	23	21	32	22
Others LT liabilities	946	932	1,156	1,285	1,387
Total liabilities	5,385	3,239	3,639	4,047	4,240
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	16,124	16,526	16,820
Shareholders' equity	18,532	17,286	17,463	17,865	18,159
Liabilities & equity	24,222	20,857	21,447	22,274	22,778

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

Improving cash inflow
stream in 2022-24F

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	1,369	1,527	3,440	4,496	5,271
Tax paid	(550)	(91)	(558)	(708)	(961)
Depreciation & amortization	1,220	1,180	1,202	1,264	1,295
Chg ln working capital	397	827	(340)	(193)	(136)
Chg ln other CA & CL / minorities	(138)	(62)	40	72	10
Cash flow from operations	2,298	3,381	3,784	4,932	5,479
Capex	(1,045)	(948)	(1,100)	(1,500)	(1,000)
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 ln other assets & liabilities	(164)	270	250	155	127
Cash flow from investments	(14)	(625)	(850)	(1,345)	(873)
Debt financing	10	(2,497)	0	12	(11)
Capital increase	230	0	(0)	0	0
Dividends paid	(2,544)	(2,545)	(2,719)	(3,299)	(3,995)
Warrants & other surplus	(332)	84	0	0	0
Cash flow from financing	(2,636)	(4,958)	(2,719)	(3,286)	(4,006)
Free cash flow	1,253	2,432	2,684	3,432	4,479

VALUATION

Inexpensive valuation, in
our view

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	107.0	100.7	44.3	34.7	29.9
Normalized PE - at target price (x)	122.6	115.4	50.8	39.7	34.3
PE (x)	106.6	105.6	44.3	34.7	29.9
PE - at target price (x)	122.1	120.9	50.8	39.7	34.3
EV/EBITDA (x)	49.8	47.9	27.6	22.1	19.3
EV/EBITDA - at target price (x)	57.4	55.2	31.8	25.5	22.2
P/BV (x)	6.9	7.4	7.3	7.2	7.1
P/BV - at target price (x)	7.9	8.5	8.4	8.2	8.1
P/CFO (x)	55.8	38.0	33.9	26.0	23.4
Price/sales (x)	10.4	10.3	8.2	7.3	6.7
Dividend yield (%)	2.0	2.0	2.3	2.9	3.3
FCF Yield (%)	1.0	1.9	2.1	2.7	3.5
(Bt)					
Normalized EPS	1.5	1.6	3.6	4.7	5.4
EPS	1.5	1.5	3.6	4.7	5.4
DPS	3.2	3.2	3.6	4.7	5.4
BV/share	23.3	21.8	22.0	22.5	22.9
CFO/share	2.9	4.3	4.8	6.2	6.9
FCF/share	1.6	3.1	3.4	4.3	5.6

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

Earnings turnaround in
2022-24F

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(33.1)	0.7	26.7	12.7	8.0
Net profit (%)	(67.9)	1.0	138.2	27.8	15.9
EPS (%)	(67.9)	1.0	138.2	27.8	15.9
Normalized profit (%)	(68.1)	6.2	127.3	27.8	15.9
Normalized EPS (%)	(68.2)	6.2	127.3	27.8	15.9
Dividend payout ratio (%)	211.2	209.2	100.0	100.0	100.0
Operating performance					
Gross margin (%)	37.7	37.7	41.7	44.2	45.6
Operating margin (%)	10.1	11.1	20.6	24.0	26.1
EBITDA margin (%)	20.0	20.6	28.2	31.2	32.9
Net margin (%)	9.9	10.6	18.6	21.1	22.6
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)	(0.4)	(0.4)
Interest coverage - EBIT (x)	9.7	11.5	na	na	na
Interest coverage - EBITDA (x)	19.3	21.4	na	na	na
ROA - using norm profit (%)	4.8	5.7	13.7	16.9	19.0
ROE - using norm profit (%)	6.2	7.1	16.7	21.0	23.8
DuPont					
ROE - using after tax profit (%)	6.3	7.3	16.8	21.1	24.0
- asset turnover (x)	0.5	0.6	0.7	0.8	0.8
- operating margin (%)	12.1	13.3	21.9	25.4	27.6
- leverage (x)	1.3	1.3	1.2	1.2	1.3
- interest burden (%)	91.5	92.7	99.9	100.0	100.0
- 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	24.1	31.1	35.8
NOPAT (Bt m)	1,108	1,183	2,746	3,531	4,097
invested capital (Bt m)	12,912	11,374	11,336	11,451	11,134

Sources: Company data, Thanachart estimates

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