HOLD (From: BUY)

Change in Recommendation

TP: Bt 7.30 (From: Bt7.20)

Upside : 2.8%

23 MAY 2022

Small Cap Research

Ratchaphruek Hospital (RPH TB)

Limited upside

RPH's share price is up 16% YTD and 41% over the past 12 months. We believe the share price, now at 39.2x non-COVID PE in 2022F, has reflected its strong performance both from COVID and non-COVID patients. Based on our new TP of Bt7.3, RPH offers limited potential upside and we downgrade the stock to HOLD.

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Thanachart Securities

Downgrading to HOLD

We downgrade RPH to HOLD (from Buy) after its 16% YTD and 41% 12-month share price jump that reflected its strong performance from both COVID and non-COVID services. 1Q22 earnings also beat our expectation at Bt181m, up 857% y-y but down 19% q-q, and we lift our earnings by 85% in 2022F to reflect the Omicron benefit in 1H22F. We maintain our forecasts from 2023F and raise our DCF-based 12-month TP (2022F base year) only slightly to Bt7.30 (from Bt7.20), offering limited potential upside. RPH is trading on 13.0/27.4x PE in 2022-23F and 39.2/29.8x PE excluding COVID-related earnings.

COVID income continues into 2Q22F

RPH's hospital is in Khon Kaen province in the northeast of Thailand. It benefited significantly from the COVID situation with quarterly earnings of Bt145/225/181m in 3Q21-1Q22 vs. an average of Bt24m/quarter in a normal year in 2019. In those quarters, infections in Khon Kaen province stood at 151/141/311 cases per day. Given still high number of 476 cases a day between 1 April and 23 May, we expect RPH to still report very strong earnings in 2Q22F. But on a q-q basis earnings should drop slightly due to the falling reimbursement rate for COVID services under the UCEP scheme to Bt12,000/case/seven day from 1 March 2022 from Bt2,500-3,000/case/day in early 1Q22.

Likely to normalize in 2H22F

With our expectation that the COVID-19 situation improves in the second half of this year, without revenue from COVID-19 services, we expect RPH's 2H22F earnings to decline to their normal level in 2019. A key factor supporting RPH's earnings is improving non-COVID cash patient levels. With RPH's very strong "Ratchaphruek" brand in Khon Kaen province and it being the sole private hospital targeting the mid- to low-end cash segment in the province, we estimate non-COVID cash patient growth of 12/9/6% in 2022-24F.

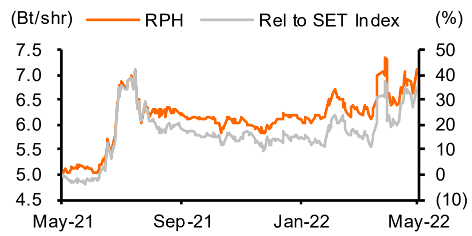
No conclusion on expansion yet

To recap, RPH moved to its new 198-bed hospital in 3Q18 and closed its old 55-bed hospital. With strong healthcare demand and RPH being the only hospital in the mid-tier market in Khon Kaen, RPH's new hospital's operation has ramped up quite well to a 63% rate utilization in 3Q19 while it was fully utilized in 2H21 due to COVID-19 patients. Management had earlier planned to reopen the old hospital for lower-tier cash patients. However, with the limited space of the old hospital and high renovation costs, management is reconsidering the investment and may change to invest in a new greenfield project instead. There has been no conclusion about the new project yet.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	1,413	1,222	976	1,069
Net profit	403	297	142	166
Consensus NP	—	234	139	166
Diff frm cons (%)	—	*27.3*	*1.9*	*(0.3)*
Norm profit	403	297	142	166
Prev. Norm profit	—	160	141	166
Chg frm prev (%)	—	*85.4*	*0.2*	*(0.4)*
Norm EPS (Bt)	0.7	0.5	0.3	0.3
Norm EPS grw (%)	329.4	(26.2)	(52.4)	16.9
Norm PE (x)	9.6	13.0	27.4	23.4
EV/EBITDA (x)	6.5	7.9	13.4	11.7
P/BV (x)	2.3	2.1	2.1	2.1
Div yield (%)	4.2	4.6	2.7	3.2
ROE (%)	26.6	17.1	7.8	9.0
Net D/E (%)	(1.9)	(17.3)	(28.0)	(34.8)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 23-May-22 (Bt)	7.10
Market Cap (US$ m)	113.4
Listed Shares (m shares)	546.0
Free Float (%)	68.6
Avg Daily Turnover (US$ m)	0.4
12M Price H/L (Bt)	7.35/5.05
Sector	Health Care
Major Shareholder	Srinakarin family 13.24%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Changes In Our Key Assumptions And Earnings Revisions

	2020	2021	2022F	2023F	2024F
Revenue from COVID-19 services (Bt m)					
- New		632	460	61	41
- Old			311	59	29
- Change (%)			*47.9*	*4.2*	*39.0*
Gross margin (%)					
- New	29.1	47.1	41.5	30.3	30.9
- Old			30.4	30.5	31.1
- Change (pp)			*11.1*	*(0.2)*	*(0.3)*
Normalized profit (Bt m)					
- New	94	403	297	142	166
- Old			160	141	166
- Change (%)			*85.4*	*0.2*	*(0.4)*

Sources: Company data, Thanachart estimates

Ex 2: 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	448	249	274	289	303	319	336	354	374	395	418	446	—
Free cash flow	482	345	253	238	250	262	276	291	307	325	344	207	3,722
PV of free cash flow	481	303	209	181	177	173	170	167	165	155	152	85	1,534

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.6
WACC (%)	6.7
Terminal growth (%)	2.0
Enterprise value - add investments	3,952
Net debt (end 2021)	(31)
Minority interest	0
Equity value	3,983
# of shares (m)	546
Equity value / share (Bt)	**7.30**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 3: 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	12,882	(26.1)	73.2	55.4	32.0	4.5	4.2	13.8	11.3	1.4	1.9
Guangzhou Pharmaceutical	874 HK	Hong Kong	6,979	3.5	6.3	8.7	8.2	1.1	0.9	7.3	6.9	2.2	2.3
Lijun Int'l Pharmaceutical	2005 HK	Hong Kong	1,412	57.8	23.7	9.0	7.3	1.6	1.4	7.7	6.3	3.4	4.0
Apollo Hospitals Enterprise	APHS IN	India	6,878	498.0	28.0	57.7	45.1	9.4	8.0	24.7	21.0	0.3	0.3
Fortis Healthcare India	FORH IN	India	2,359	na	42.6	49.3	34.6	2.8	2.5	18.4	16.5	0.0	0.0
KPJ Healthcare	KPJ MK	Malaysia	910	177.3	33.3	27.9	20.9	1.7	1.7	11.4	10.3	1.8	2.4
IHH Healthcare Bhd	IHH MK	Malaysia	13,136	(7.9)	13.4	35.2	31.0	2.3	2.2	15.5	14.4	0.9	1.1
Ryman	RYM NZ	New Zealand	3,176	na	18.3	21.4	18.1	1.5	1.3	19.9	15.6	2.0	2.2
Raffles Medical Group	RFMD SP	Singapore	1,555	(15.7)	7.9	30.3	28.0	2.2	2.1	14.7	14.1	2.2	2.1
Bangkok Chain Hospital *	BCH TB	Thailand	1,371	(46.7)	(50.9)	12.8	26.1	3.3	3.2	8.3	13.6	3.9	1.9
Bangkok Dusit Medical *	BDMS TB	Thailand	12,548	16.0	15.3	46.6	40.4	4.9	4.7	28.4	25.2	1.2	1.4
Bumrungrad Hospital *	BH TB	Thailand	4,068	127.3	27.8	48.0	37.6	8.0	7.8	30.0	24.0	2.1	2.7
Chularat Hospital *	CHG TB	Thailand	1,158	(58.4)	(18.8)	22.7	27.9	5.2	5.0	15.9	18.7	3.1	2.5
Ladprao General Hospital *	LPH TB	Thailand	122	(49.9)	(17.6)	18.0	21.8	2.4	2.4	10.0	11.7	4.2	3.4
Praram 9 Hospital *	PR9 TB	Thailand	350	35.2	17.9	35.5	30.1	2.7	2.5	15.6	13.6	1.3	1.5
Rajthanee Hospital *	RJH TB	Thailand	300	(23.1)	(41.5)	13.2	22.6	5.1	5.2	9.6	15.2	6.1	3.3
Ratchaphruek Hospital *	RPH TB	Thailand	113	(26.2)	(52.4)	13.0	27.4	2.1	2.1	7.9	13.4	4.6	2.7
Thonburi Healthcare Group*	THG TB	Thailand	1,611	(31.3)	(32.0)	58.7	86.4	5.9	5.9	29.2	33.9	1.0	0.7
Average				**39.4**	**5.3**	**31.3**	**30.3**	**3.7**	**3.5**	**16.0**	**15.9**	**2.3**	**2.0**

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

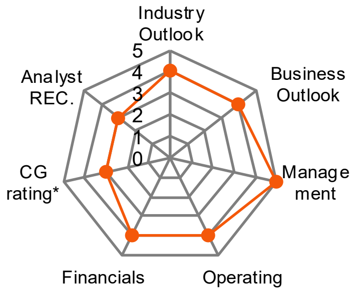
Based on 23 May 2022 closing prices

COMPANY DESCRIPTION

Ratchaphruek Hospital Pcl (RPH) operates a private hospital under the “Ratchaphruek” brand in Khon Kaen province in the Northeast of Thailand. The company was established in 1993 by a group of doctors from the medical school at Khon Kaen University including Dr. Teerawat Srinakarin, Dr. Vallop Laopaiboon and Dr. Vinai Tantiyasawasdikul, who are now the major shareholders of RPH. The hospital has high levels of expertise and it operates a Women’s Center, Surgical Clinics (General Surgery, Orthopedic and Urological Surgery), Internal Medicine Center, Children’s Center, and an Ear Nose and Throat Center, etc.

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

- Very strong “Ratchaphruek” brand in Khon Kaen province.
- Owners and the company executives have strong relationships with doctors and professors from medical schools in Khon Kaen province.
- RPH is in a prime location on Mitraphap Road in Khon Kaen.

W — Weakness

- Limited patient-base diversification as RPH still mainly focuses on cash patients in the low- to mid-tier markets.

O — Opportunity

- Limited public healthcare supply in Thailand.
- New building should help to unlock its capacity constraints.
- Rising patient flows from neighbouring countries now the ASEAN Economic Community has been launched.
- High GDP and GDP per capita in Khon Kaen.
- COVID-19 outbreaks.

T — Threat

- RPH has two major competitors: Khon Kaen Ram Hospital and Bangkok Khon Kaen Hospital.
- Regulatory risk.
- COVID-19 outbreaks.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	7.17	7.30	2%
Net profit 22F (Bt m)	234	297	27%
Net profit 23F (Bt m)	139	142	2%
Consensus REC	**BUY: 1**	**HOLD: 2**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F earnings are stronger than the Bloomberg consensus forecast, which we attribute to us having a more bullish view on its COVID services. Meanwhile, our long-term earnings and TP are in line with the Street.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- If patient numbers are lower/higher than we currently anticipate, this would result in the key downside/upside risk to our earnings forecasts.
- If RPH raises billing sizes by a lower/higher extent than we currently expect, our gross-margin and profit forecasts would be subject to downside/upside potential, presenting a secondary downside/upside risk to our call.

Source: Thanachart

Earnings return to normal level from 2H22F

No new investments planned

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	799	1,413	1,222	976	1,069
Cost of sales	567	747	715	681	739
Gross profit	**233**	**666**	**507**	**296**	**330**
% gross margin	29.1%	47.1%	41.5%	30.3%	30.9%
Selling & administration expenses	122	168	145	132	138
Operating profit	**111**	**498**	**362**	**164**	**191**
% operating margin	13.9%	35.2%	29.6%	16.8%	17.9%
Depreciation & amortization	89	89	89	87	85
EBITDA	**200**	**587**	**451**	**251**	**277**
% EBITDA margin	25.1%	41.6%	36.9%	25.7%	25.9%
Non-operating income	13	12	13	14	16
Non-operating expenses	0	0	0	0	0
Interest expense	(8)	(7)	(3)	(1)	(0)
Pre-tax profit	**116**	**503**	**371**	**177**	**207**
Income tax	23	100	74	35	41
After-tax profit	**94**	**403**	**297**	**142**	**166**
% net margin	11.7%	28.5%	24.3%	14.5%	15.5%
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	**94**	**403**	**297**	**142**	**166**
Normalized profit	**94**	**403**	**297**	**142**	**166**
EPS (Bt)	0.2	0.7	0.5	0.3	0.3
Normalized EPS (Bt)	0.2	0.7	0.5	0.3	0.3

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	239	717	684	655	768
Cash & cash equivalent	159	238	320	520	650
Account receivables	57	450	335	107	88
Inventories	23	30	29	28	30
Others	0	0	0	0	0
Investments & loans	12	12	12	12	12
Net fixed assets	1,527	1,453	1,387	1,322	1,259
Other assets	26	32	31	29	28
Total assets	**1,804**	**2,215**	**2,114**	**2,018**	**2,067**
LIABILITIES:					
Current liabilities:	225	418	250	163	166
Account payables	87	197	196	104	113
Bank overdraft & ST loans	20	20	0	1	0
Current LT debt	102	105	2	5	1
Others current liabilities	16	96	51	53	51
Total LT debt	**186**	**82**	**4**	**9**	**3**
Others LT liabilities	37	35	53	41	42
Total liabilities	**449**	**535**	**307**	**213**	**211**
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	546	546	546	546	546
Share premium	679	679	679	679	679
Warrants	0	0	0	0	0
Surplus	0	0	0	0	0
Retained earnings	**130**	**455**	**581**	**580**	**631**
Shareholders' equity	1,355	1,680	1,806	1,805	1,856
Liabilities & equity	**1,804**	**2,215**	**2,114**	**2,018**	**2,067**

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	116	503	371	177	207
Tax paid	(19)	(21)	(116)	(33)	(43)
Depreciation & amortization	89	89	89	87	85
Chg In w orking capital	(51)	(289)	114	138	26
Chg In other CA & CL / minorities	2	2	(3)	(0)	0
Cash flow from operations	**137**	**284**	**455**	**368**	**275**
Capex	(13)	(16)	(20)	(20)	(20)
Right of use	(12)	2	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	14	(11)	17	(13)	(0)
Cash flow from investments	**(11)**	**(25)**	**(3)**	**(33)**	**(20)**
Debt financing	39	(102)	(199)	7	(10)
Capital increase	0	0	0	0	0
Dividends paid	(55)	(82)	(171)	(142)	(115)
Warrants & other surplus	(2)	3	0	0	0
Cash flow from financing	**(17)**	**(181)**	**(370)**	**(136)**	**(125)**
Free cash flow	**125**	**268**	**435**	**348**	**255**

Inexpensive valuation, in our view

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	41.3	9.6	13.0	27.4	23.4
Normalized PE - at target price (x)	42.5	9.9	13.4	28.1	24.1
PE (x)	41.3	9.6	13.0	27.4	23.4
PE - at target price (x)	42.5	9.9	13.4	28.1	24.1
EV/EBITDA (x)	20.1	6.5	7.9	13.4	11.7
EV/EBITDA - at target price (x)	20.6	6.7	8.1	13.9	12.1
P/BV (x)	2.9	2.3	2.1	2.1	2.1
P/BV - at target price (x)	2.9	2.4	2.2	2.2	2.1
P/CFO (x)	28.3	13.7	8.5	10.5	14.1
Price/sales (x)	4.8	2.7	3.2	4.0	3.6
Dividend yield (%)	1.8	4.2	4.6	2.7	3.2
FCF Yield (%)	3.2	6.9	11.2	9.0	6.6
(Bt)					
Normalized EPS	0.2	0.7	0.5	0.3	0.3
EPS	0.2	0.7	0.5	0.3	0.3
DPS	0.1	0.3	0.3	0.2	0.2
BV/share	2.5	3.1	3.3	3.3	3.4
CFO/share	0.3	0.5	0.8	0.7	0.5
FCF/share	0.2	0.5	0.8	0.6	0.5

Sources: Company data, Thanachart estimates

A net-cash company

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(2.1)	76.7	(13.5)	(20.1)	9.4
Net profit (%)	(2.7)	329.4	(26.2)	(52.4)	16.9
EPS (%)	(2.7)	329.4	(26.2)	(52.4)	16.9
Normalized profit (%)	(2.7)	329.4	(26.2)	(52.4)	16.9
Normalized EPS (%)	(2.7)	329.4	(26.2)	(52.4)	16.9
Dividend payout ratio (%)	75.6	40.6	60.0	75.0	75.0
Operating performance					
Gross margin (%)	29.1	47.1	41.5	30.3	30.9
Operating margin (%)	13.9	35.2	29.6	16.8	17.9
EBITDA margin (%)	25.1	41.6	36.9	25.7	25.9
Net margin (%)	11.7	28.5	24.3	14.5	15.5
D/E (incl. minor) (x)	0.2	0.1	0.0	0.0	0.0
Net D/E (incl. minor) (x)	0.1	(0.0)	(0.2)	(0.3)	(0.3)
Interest coverage - EBIT (x)	14.2	74.4	105.4	296.0	417.8
Interest coverage - EBITDA (x)	25.6	87.8	131.4	453.8	na
ROA - using norm profit (%)	5.3	20.1	13.7	6.9	8.1
ROE - using norm profit (%)	7.0	26.6	17.1	7.8	9.0
DuPont					
ROE - using after tax profit (%)	7.0	26.6	17.1	7.8	9.0
- asset turnover (x)	0.4	0.7	0.6	0.5	0.5
- operating margin (%)	15.6	36.1	30.7	18.2	19.4
- leverage (x)	1.3	1.3	1.2	1.1	1.1
- interest burden (%)	93.7	98.7	99.1	99.7	99.8
- tax burden (%)	80.6	80.1	80.1	80.0	80.0
WACC (%)	6.7	6.7	6.7	6.7	6.7
ROIC (%)	5.8	26.5	17.6	8.8	11.8
NOPAT (Bt m)	90	399	290	131	153
invested capital (Bt m)	1,505	1,649	1,493	1,299	1,210

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.

Thanachart Capital Public Company Limited (TCAP), Ratchthani Leasing Public Company Limited (THANI), MBK PUBLIC COMPANY LIMITED (MBK) and PATUM RICE MILL AND GRANARY PUBLIC COMPANY LIMTED (PRG) are related companies to Thanachart Securities Public Company Limited (TNS) . Since TNS covers those securities in research report, consequently TNS incurs conflicts of interest.

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Recommendation Structure:

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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