Thonburi Healthcare Group (THG TB) - SELL, Price Bt64.5, TP Bt43

Results Comment

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Strong beat 2Q22 results

- THG reported Bt398m net profit in 2Q22, up 373% y-y but down 24% q-q. This was above ours and the Street's earnings forecast due to higher-than-expected revenue from Aryu International Hospital in Myanmar and other income items.
- The company's strong y-y earnings growth was mainly driven by 1) rising revenue from COVID-19 services, 2) rising revenue from healthcare solutions provider (transferred 32 units of Jin Wellbeing County in 2Q22 vs. three units in 2Q21), 3) rising other income items (dividend income and gain from reclassification of investment of Bt13m), 4) strong turnaround of Aryu international Hospital (from Bt27m loss in 2Q21 to Bt42m gain in 2Q22 due to core operation improvement and FX gain) and 5) expanding margin due to operating leverage benefit.
- The q-q earnings drop resulted from falling revenue from COVID-19 services and falling operating margin due to operating leverage effect.
- Its top line grew by 40% y-y but declined by 24% q-q to Bt2.7bn in 2Q22. Its operating margin also expanded to 14.6% in 2Q22 from 7.9% in 2Q21 but declined from 21.3% in 1Q22.
- 6M22 earnings accounted for 98% of our full-year earnings forecast. We see 2H22 earnings growth to turn negative y-y and h-h due to falling revenue from related COVID-19 services. However, we estimate its earnings excluding COVID services still grow y-y and h-h, driven by non-COVID cash patients.
- Though we see an upside to our earnings forecast, trading at 85.7x PE in 2023F is expensive in our view. We thus maintain our SELL rating on THG.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Revenue	1,906	3,861	3,514	3,530	2,674
Gross profit	**493**	**1,437**	**1,271**	**1,191**	**793**
SG&A	342	430	444	440	402
Operating profit	151	1,006	827	750	391
EBITDA	**379**	**1,246**	**1,080**	**996**	**642**
Other income	48	20	57	28	80
Other expense	0	0	3	4	1
Interest expense	72	77	78	75	73
Profit before tax	**127**	**949**	**803**	**699**	**397**
Income tax	29	98	238	154	65
Equity & invest. income	(20)	(20)	96	6	78
Minority interests	12	(0)	(39)	(25)	(14)
Extraordinary items	(5)	2	(8)	(0)	1
Net profit	**84**	**833**	**614**	**527**	**398**
Normalized profit	**90**	**831**	**622**	**527**	**397**
EPS (Bt)	0.10	0.98	0.72	0.62	0.47
Normalized EPS (Bt)	0.11	0.98	0.73	0.62	0.47

Income Statement			6M as		
(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F
Revenue	(24)	40	60	10,304	9,418
Gross profit	**(33)**	**61**	71	**2,807**	**2,570**
SG&A	(9)	17	52	1,627	1,775
Operating profit	(48)	160	97	1,179	795
EBITDA	**(36)**	**69**	77	**2,139**	**1,815**
Other income	187	68	65	166	170
Other expense	(71)	3,981	187	3	3
Interest expense	(2)	2	53	279	309
Profit before tax	**(43)**	**214**	103	**1,063**	**652**
Income tax	(58)	125	103	213	130
Equity & invest. income	1,157	na	na	76	117
Minority interests	na	na	na	14	
Extraordinary items	na	na			
Net profit	**(24)**	**373**	98	**940**	**639**
Normalized profit	**(25)**	**343**	98	**940**	**639**
EPS (Bt)	(24)	374	98	1.11	0.75
Normalized EPS (Bt)	(25)	344	98	1.11	0.75

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Cash & ST investment	951	1,209	1,536	1,272	1,094
A/C receivable	1,150	3,626	3,183	3,005	2,869
Inventory	1,346	1,408	1,416	1,428	1,282
Other current assets	1,765	1,773	883	880	882
Investment	1,323	1,371	1,450	1,457	1,648
Fixed assets	10,696	10,862	11,660	11,555	11,620
Other assets	3,378	3,586	3,670	3,637	3,681
Total assets	**20,609**	**23,835**	**23,799**	**23,234**	**23,077**
S-T debt	4,875	5,784	5,606	5,056	5,442
A/C payable	1,243	3,462	2,813	2,219	2,018
Other current liabilities	117	187	316	429	290
L-T debt	5,408	4,553	4,461	4,620	4,298
Other liabilities	988	994	986	981	1,001
Minority interest	405	405	471	472	475
Shareholders' equity	**7,573**	**8,449**	**9,147**	**9,457**	**9,553**
Working capital	1,253	1,572	1,787	2,214	2,133
Total debt	10,283	10,337	10,066	9,676	9,740
Net debt	**9,332**	**9,128**	**8,530**	**8,404**	**8,646**

Financial Ratios					
(%)	2Q21	3Q21	4Q21	1Q22	2Q22
Sales growth	20.7	101.9	86.7	125.4	40.3
Operating profit growth	na	777.8	712.0	na	159.5
EBITDA growth	191.6	274.5	239.9	771.1	69.5
Norm profit growth	na	1,650.1	1,878.8	na	343.2
Norm EPS growth	na	1,650.1	1,878.8	na	344.1
Gross margin	25.9	37.2	36.2	33.7	29.7
Operating margin	7.9	26.1	23.5	21.3	14.6
EBITDA margin	19.9	32.3	30.7	28.2	24.0
Norm net margin	4.7	21.5	17.7	14.9	14.8
D/E (x)	1.3	1.2	1.0	1.0	1.0
Net D/E (x)	1.2	1.0	0.9	0.8	0.9
Interest coverage (x)	5.3	16.1	13.8	13.3	8.8
Interest rate	2.8	3.0	3.1	3.0	3.0
Effective tax rate	22.8	10.3	29.6	22.0	16.3
ROA	1.8	15.0	10.4	9.0	6.9
ROE	4.7	41.5	28.3	22.7	16.7

Sources: Company data, Thanachart estimates

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