

Bangkok Dusit Medical Services Public Company Limited

Company Rating:
A
Issue Ratings:

BGH113A: Bt3,000 million senior debentures due 2011

A

BGH133A: Bt2,000 million senior debentures due 2013

A

BGH146A: Bt2,000 million senior debentures due 2014

A

BGH166A: Bt1,000 million senior debentures due 2016

A
Rating Outlook:
Stable
Rating History:
Company Rating
Issue Rating
Secured
Unsecured

11 Feb 2008

A/Stable

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A

Rating Rationale

TRIS Rating affirms the company and issue ratings of Bangkok Dusit Medical Services PLC (BGH) at "A". The ratings reflect BGH's leading position as the largest private hospital operator in Thailand, sustained patient volume growth, capable physicians and experienced management team, and high quality service. The ratings also take into consideration BGH's strong franchise network under the Bangkok Hospital, Samitivej Hospital, and BNH Hospital brands. These strengths are partially offset by concerns over the number of foreign patients that might be dropped amid prolonged political instability, the relatively low returns on permanent capital, and concerns over leverage levels in the future if the company continues to fund its expansions through debt financing.

BGH was established in 1969 with initial registered capital of Bt10 million to operate a private hospital, Bangkok Hospital. Currently, 18 hospitals, with a total of 3,032 registered beds, are under the umbrella of BGH. Twelve hospitals are operated under the Bangkok Hospital brand, three hospitals under the Samitivej Hospital brand, one hospital under the BNH Hospital brand, and two international hospitals under the Royal International Hospital brand. During the past three years, 55% of patient revenue came from inpatients; the remainder came from outpatients. In 2009, BGH achieved Joint Commission International (JCI) accreditation for three hospitals: BNH Hospital, Bangkok Phuket Hospital, and Bangkok Pattaya Hospital. Previously, six hospitals under BGH have received JCI accreditation: Bangkok Hospital, Bangkok Heart Hospital, Wattanosoth Hospital (cancer), Samitivej Sukhumvit Hospital, Samitivej Srinakarin Hospital and Samititvej Sriracha Hospital.

During 2004-2008, BGH grew dramatically mostly through acquisition of existing hospitals in the industry. BGH acquired Samitivej PLC, BNH Medical Centre Co., Ltd., and several hospitals in the eastern, southern, and northeastern regions of Thailand, including Bangkok Pattaya Hospital Co., Ltd., Bangkok Rayong Hospital Co., Ltd., Bangkok Phuket Hospital Co., Ltd., Bangkok Hadyai Hospital Co., Ltd., and Bangkok Ratchasima Hospital Co., Ltd. In addition, the company invested in two new hospitals in Cambodia. Revenue from hospital operations grew at a compound annual growth rate (CAGR) of 42% during 2004-2008. The CAGR of outpatient visits per day was 31% and CAGR of the admission rate per day was 29% during the same period. However, due to the impact from political instability and the global financial crisis, patient services revenue in 2009 grew by 1.93%. Outpatient revenues grew by 2.73%, while inpatient revenues dropped slightly by 1.23%. The decline in inpatient revenues was mainly due to the declining number of foreign patients together with discounts and promotional packages, even though

admissions of local patients grew by 6.5%. The revenue per outpatient visit in 2009 stayed almost the same as the prior year, while the revenue per inpatient day dropped by 3.05%. The average length of stay declined slightly from 3.05 days in 2008 to 2.95 days in 2009. In terms of contribution, the revenue contribution from international patients was maintained at 35%-36% of total patient revenue over the past three years.

The acquisitions of several hospitals in the past few years pushed BGH's debt to capitalization ratio to peak at 54.5% in 2006. However, cash flow from operations improved and capital expenditures fell during 2008-2009. Thus, BGH's capital structure has gradually improved since there was no major acquisition last year. The debt to capitalization ratio at the end of 2009 stood at 45.39%. The earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio also increased, rising from 7.6 times in 2006 to 8.19 times in 2009. Most debts are denominated in Thai baht with fixed interest rates. The company has very low exposure to interest rate risk or foreign exchange risk. BGH plans to open a hospital with 60 beds in Hua Hin in 2011, while the investment in a new hospital in Phnom Pehn is delayed due to several unfavorable factors. In addition, the company has acquired land to build a new hospital in Khao Yai. These projects are mostly financed through operating cash flow.

The profitability of BGH is relatively stable and comparable with its peers. Operating income as a percentage of sales sustained at 22%-22.5% during 2006-2009. Going forward, BGH is challenged to continually improve its cost structure. The profitability of the company will depend on its ability to control cost and improve the utilization of shared assets and services within the group. The company's relatively large asset size is not fully utilized, keeping the pretax return on permanent capital lower than peers.

Rating Outlook

The "stable" outlook is based on the expectation that BGH will sustain its operating performance at the current level. Future investments or acquisitions, if any, should be funded largely through operating cash flow to keep the total debt to capitalization ratio below 50%.

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