

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:	Positive

Rating History:	Company Rating	Secured	Issue Rating	Unsecured
11 Feb 2008	A/Stable	-		A

Rating Rational

TRIS Rating affirms the company and issue ratings of Bangkok Dusit Medical Services PLC (BGH) at “A”. The ratings outlook for BGH is revised to “positive” from “stable”. The rating actions follow BGH’s announcement on 14 December 2010 that it has agreed to acquire Health Network PLC (HNC), the major shareholder of the Phyathai Hospital Group and the Paolo Memorial Hospital Group. The acquisition will be completed through a share swap. The “positive” outlook for BGH reflects its improving financial profile, increased diversification of its customer base, and the potential cost savings derived from the HNC transaction.

The acquisition will be funded by using a combination of cash, newly issued shares, and the transfer of an obligation between HNC and its subsidiary to BGH. For the initial stage of the acquisition, BGH will purchase all of HNC’s assets by using Bt680 million in cash, plus new 230.87 million shares of BGH issued at a price of Bt 37.75 per share, as well as acceptance of HNC’s obligation to pay the principal and accrued interest totalling not more than Bt430 million under the terms of a loan agreement between HNC (as debtor) and Paolo Medic Co., Ltd. (as creditor).

The assets of HNC to be acquired include 49.17% of the shares of Prasit Pattana PLC (PPCL), a 100% shareholding stake in Paolo Paholyothin hospital, 88.73% of the shares of Paolo Samutprakarn hospital, an 80.72% stake in Paolo Chokchai 4 hospital, and a 99.76% stake in Paolo Nawamin hospital. The shares of BGH received by HNC will be allocated to HNC’s shareholders. In addition, BGH will issue new shares through a private placement of 4.127 million shares, valued at Bt156 million. The private placement will be made to HNC’s major shareholders. After the acquisition is completed, HNC’s current shareholders will own 15.9% of BGH.

BGH currently holds 19.47% shares of PPCL. After acquiring HNC, BGH will own 68.64% of PPCL. BGH is thus legally obligated to make a tender offer for all of the remaining shares of PPCL. BGH will use either Bt2,726 million in cash or 72.198 million of newly issued shares to complete the tender offer. The transaction is expected to close in the first quarter of 2011.

***CreditUpdate** reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.*

***CreditUpdates** are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.*

After the acquisition, BGH's business profile is expected to strengthen while the financial ratios for leverage and profitability may change slightly. BGH's competitive position will be enhanced as its market share based on a number of registered beds will increase from 9.3% to 14.6%. In addition, its customer base will be enlarged to cover the mid- to high-end segments in various locations. The debt to capitalization ratio is expected to hold in an acceptable range of 38%-44%, a slight change from 41% at the end of September 2010. Operating income as a percentage of sales is expected to remain at around 22%-23%. The expected cost savings, coming as benefits from economies of scale or improved utilization of shared assets and services among hospitals in BGH Group, may take time to materialize. In addition, the company's relatively large asset base will keep the pretax return on permanent capital lower than its peers. However, across all the hospitals in the BGH Group, earnings before taxes, depreciation, and amortization (EBITDA) is expected to increase by 40% from around Bt5,000 million in 2009.

BGH is the largest private hospital operator in Thailand established in 1969. The company has continuously expanded by organic growth and by acquisition. The HNC deal is expected to extend BGH's customer base into the social security and civil servant segments. As of December 2010, BGH operated 19 hospitals with 2,992 registered beds through these hospital brands: Bangkok hospital, Samitivej hospital, BNH hospital, and international hospitals under the Royal International hospital brand. After acquisition, the company will have 27 hospitals with 4,639 registered beds. Two more brands, the Phyathai hospital and the Paolo hospital, will be added to BGH's portfolio.

Rating Outlook

The "positive" outlook reflects the improving operating performance and financial profile of BGH. Based on its past track record of successful acquisitions, TRIS Rating believes the company will have a smooth transition, without incurring costs or capital expenditures higher than expected. BGH's ratings could be upgraded if BGH can keep the operation of each hospital under control and successfully integrate the hospitals under the HNC Group's umbrella. Alternatively, any deterioration in financial performance or a higher-than-expected rise in leverage would negatively impact its ratings or outlook.

Financial Statistics and Key Financial Ratios*
Unit: Bt million

	Jan-Sep ** 2010	----- Year Ended 31 December -----				
		2009	2008	2007	2006	2005
Sales (revenues from hospital only)	17,529**	21,597	21,188	18,432	15,578	10,254
Gross interest expense	460	641	647	688	546	276
Net income from operations	1,803	1,725	1,662	1,244	1,323	832
Funds from operations (FFO)	3,309	3,999	3,893	3,351	2,987	1,767
Capital expenditures	869	1,496	1,976	2,998	3,650	2,728
Total assets	31,257	30,359	27,931	26,232	24,934	17,677
Total debt	11,990	12,256	11,440	11,385	11,959	7,444
Shareholder's equity	15,622	14,747	12,988	11,710	9,984	8,418
Operating income before depreciation and amortization as % of sales	22.89	21.63	21.61	22.46	22.29	18.90
Pretax return on permanent capital (%)	10.85**	11.56	12.84	11.13	12.25	9.26
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	9.93	8.19	8.07	6.69	7.06	8.73
FFO/total debt (%)	27.60**	32.63	34.04	28.52	24.98	23.74
Total debt/capitalization (%)	43.42	45.39	46.83	49.30	54.50	46.93

* Consolidated financial statements

** Non-annualized

Rating Symbols and Definitions

TRIS Rating uses eight letter rating symbols for announcing medium- and long-term credit ratings. The ratings range from AAA, the highest rating, to D, the lowest rating. The medium- and long-term debt instrument covers the period of time from one year up. The definitions are:

AAA	The highest rating, indicating a company or a debt instrument with smallest degree of credit risk. The company has extremely strong capacity to pay interest and repay principal on time, and is unlikely to be affected by adverse changes in business, economic or other external conditions.
AA	The rating indicates a company or a debt instrument with a very low degree of credit risk. The company has very strong capacity to pay interest and repay principal on time, but is somewhat more susceptible to the adverse changes in business, economic, or other external conditions than AAA rating.
A	The rating indicates a company or a debt instrument with a low credit risk. The company has strong capacity to pay interest and repay principal on time, but is more susceptible to adverse changes in business, economic or other external conditions than debt in higher-rated categories.
BBB	The rating indicates a company or a debt instrument with moderate credit risk. The company has adequate capacity to pay interest and repay principal on time, but is more vulnerable to adverse changes in business, economic or other external conditions and is more likely to have a weakened capacity to pay interest and repay principal than debt in higher-rated categories.
BB	The rating indicates a company or a debt instrument with a high credit risk. The company has less than moderate capacity to pay interest and repay principal on time, and can be significantly affected by adverse changes in business, economic or other external conditions, leading to inadequate capacity to pay interest and repay principal.
B	The rating indicates a company or a debt instrument with a very high credit risk. The company has low capacity to pay interest and repay principal on time. Adverse changes in business, economic or other external conditions could lead to inability or unwillingness to pay interest and repay principal.
C	The rating indicates a company or a debt instrument with the highest risk of default. The company has a significant inability to pay interest and repay principal on time, and is dependent upon favourable business, economic or other external conditions to meet its obligations.
D	The rating for a company or a debt instrument for which payment is in default.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

TRIS Rating's short-term ratings focus entirely on the likelihood of default and do not focus on recovery in the event of default. Each of TRIS Rating's short-term debt instrument covers the period of not more than one year. The symbols and definitions for short-term ratings are as follows:

T1	Issuer has strong market position, wide margin of financial protection, appropriate liquidity and other measures of superior investor protection. Issuer designated with a "+" has a higher degree of these protections.
T2	Issuer has secure market position, sound financial fundamentals and satisfactory ability to repay short-term obligations.
T3	Issuer has acceptable capacity for meeting its short-term obligations.
T4	Issuer has weak capacity for meeting its short-term obligations.
D	The rating for an issuer for which payment is in default.

All ratings assigned by TRIS Rating are local currency ratings; they reflect the Thai issuers' ability to service their debt obligations, excluding the risk of convertibility of the Thai baht payments into foreign currencies.

TRIS Rating also assigns a "**Rating Outlook**" that reflects the potential direction of a credit rating over the medium to long term. In formulating the outlook, TRIS Rating will consider the prospects for the rated company's industry, as well as business conditions that might have an impact on the fundamental creditworthiness of the company. The rating outlook will be announced in conjunction with the credit rating. In most cases, the outlook of each debt obligation is equal to the outlook assigned to the issuer or the obligor. The categories for "**Rating Outlook**" are as follows:

Positive	The rating may be raised.
Stable	The rating is not likely to change.
Negative	The rating may be lowered.
Developing	The rating may be raised, lowered or remain unchanged.

TRIS Rating may announce a "**CreditAlert**" as a part of its monitoring process of a publicly announced credit rating when there is a significant event that TRIS Rating considers to potentially exerting a substantial impact on business or financial profiles of the rated entity. Due to an insufficient data or incomplete developments of the event, such as merger, new investment, capital restructuring, and etc., current credit rating remains unchanged. The announcement aims to forewarn investors to take a more cautious stance in investment decision against debt instruments of the rated entity. CreditAlert report consists of a "Rational" indicating warning reasons, a "CreditAlert Designation", and a current credit rating. Rating Outlook is withheld in the announcement.

CreditAlert Designation illustrates a short-term rating outlook indicative of the characteristics of impacts on the credit rating in one of the three directions (1) *Positive* (2) *Negative* and (3) *Developing*.

For subscription information, contact

TRIS Rating Co., Ltd., Office of the President, Tel: 0-2231-3011 ext 500

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand, www.trisrating.com

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