

Bumrungrad Hospital (BH TB)

Fully valued

Downgrade to SELL, maintain TP at THB185

We downgrade to SELL from Hold, while maintaining our TP at THB185 as the share price has outperformed the SET by 12% in the past month, owing to the strong 2Q22 earnings growth of 60% QoQ and 448% YoY to THB1.2b. This was driven by the recovery in both international and domestic patients which saw 2Q22 revenue exceed pre-Covid 2Q19 revenue by 15%. We also note that Mr. Satit Viddayakorn, the previous major shareholder, divested his remaining stake of 8.4% at THB178 a share. Currently, he no longer has any shares in BH and we think this could also be another indication that the stock is fully valued. BH is trading at 41.9x FY23E P/E, a premium to industry peers at 29.1x. We think long-term growth could be limited due to its single-hospital operation. We prefer CHG (CP THB3.62, BUY, TP THB4.60) as it is the main beneficiary of the strong economic growth in Eastern Economic Corridor (EEC), Thailand's industrial hub, where most of its hospitals are located.

We think strong 2Q22 profit growth is priced in

2Q22 revenue grew 20% QoQ and 64% YoY to THB4.9b of which 5% was Covid related vs 6% in 1Q22. Revenues from Thai patients grew 1.3% QoQ and 14.9% YoY (to THB1.8b), whereas revenues from international patients grew 35% QoQ and 123% YoY (to THB3.1b) in line with the strong growth in international arrivals. As a result of the strong revenue growth, EBITDA margin widened 6.1 ppt QoQ and 15.5 ppt YoY to 34.6%. Although we expect an equally strong 2H22, in terms of revenue growth, we think the good profit outlook is priced-in, especially given that BH has moderate long-term sales growth owing to its single-hospital operation.

More local hospital partnerships is main upside

This year, BH will have 10 local hospital partners for its Centres of Excellence, up from 5 last year. By leveraging its expertise in specialised treatments such as heart and spine, BH provides training to the doctors at the local partner hospitals, where patients are treated, and BH receives a share of the profit. This could add to long-term growth and if revenues are better-than-expected could provide upside to earnings and share price.

Beneficiary of tourism recovery but fully valued

We use DCF, 5.7% WACC and 2% growth to value BH. We believe BH is a main beneficiary of recovery in medical tourism but this recovery is priced-in. Downgrade to Sell from Hold. The key upside risk could be its partnerships with local hospitals, if the revenues exceed expectations.

FYE Dec (THB m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	12,362	12,460	16,900	18,971	19,734
EBITDA	2,588	2,758	4,880	6,167	6,393
Core net profit	1,199	1,274	2,926	4,006	4,358
Core EPS (THB)	1.51	1.60	3.68	5.04	5.48
Core EPS growth (%)	(71.7)	6.2	129.7	36.9	8.8
Net DPS (THB)	3.20	3.20	1.66	2.27	2.47
Core P/E (x)	79.5	87.9	59.5	43.4	39.9
P/BV (x)	5.1	6.5	9.6	8.4	7.5
Net dividend yield (%)	2.7	2.3	0.8	1.0	1.1
ROAE (%)	6.3	6.8	16.5	20.6	19.9
ROAA (%)	4.8	5.7	13.5	16.8	16.4
EV/EBITDA (x)	37.4	40.1	35.1	27.1	25.4
Net gearing (%) (incl perps)	6.7	net cash	net cash	net cash	net cash
Consensus net profit	-	-	3,998	4,594	5,021
MKE vs. Consensus (%)	-	-	(26.8)	(12.8)	(13.2)

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SELL

[Prior:HOLD]

Share Price	THB 219.00
12m Price Target	THB 185.00 (-16%)
Previous Price Target	THB 185.00

Company Description

BH is a premium hospital operator, catering mainly to international patients.

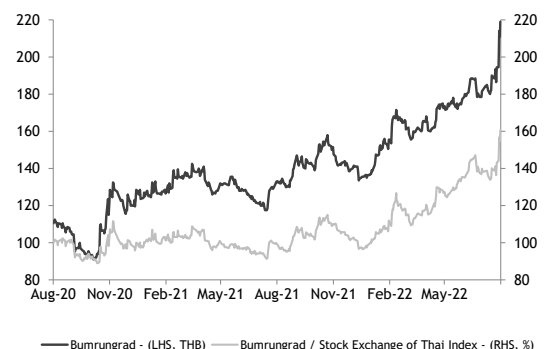
Statistics

52w high/low (THB)	219.00/130.00
3m avg turnover (USDm)	30.3
Free float (%)	49.7
Issued shares (m)	795
Market capitalisation	THB174.0B USD4.9B

Major shareholders:

Bangkok Insurance	13.4%
Bangkok Bank	6.9%
Wattanasophonpanich Co	3.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	23	27	65
Relative to index (%)	17	26	62

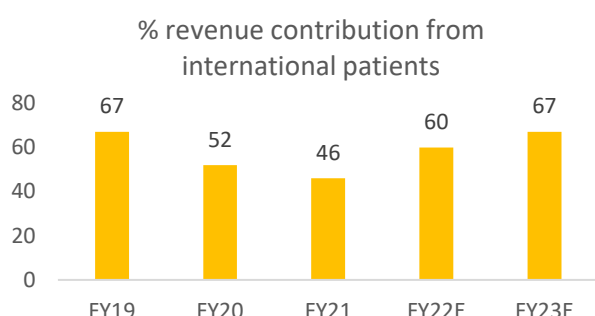
Source: FactSet

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Tear Sheet Insert

Value Proposition

- BH is a leading private hospital (580 licensed beds) in the premium segment.
- BH has strong brand recognition with a focus on high-intensity treatments.
- Majority of revenue derived from international patients - 67% of total revenue in FY19, while the remainder comes from Thai patients.
- Due to the shutdown of borders in Thailand since April 2020, international patients have been largely absent since 2Q20 but with the reopening of borders in 2Q22 we expect a normalisation of arrivals by FY23E.

Revenue contribution from international patients

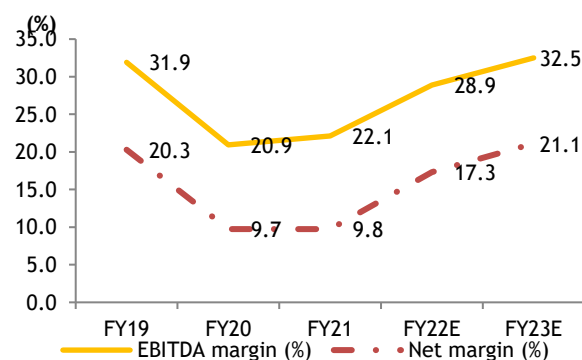


Source: BH and MST

Financial Metrics

- Following the country's initial re-opening in Nov 2021, we expect BH to register strong profit growth of 141% in FY22E, and 37% in FY23E, driven by the recovery in international patients.
- Associated with the strong revenue growth (+35.6% in FY22E and +12.3% in FY23E), we expect EBITDA margin to improve to 28.9% in FY22E and 32.5% in FY23E, from 22.1% in FY21, because of the high operating leverage in the hospital business.

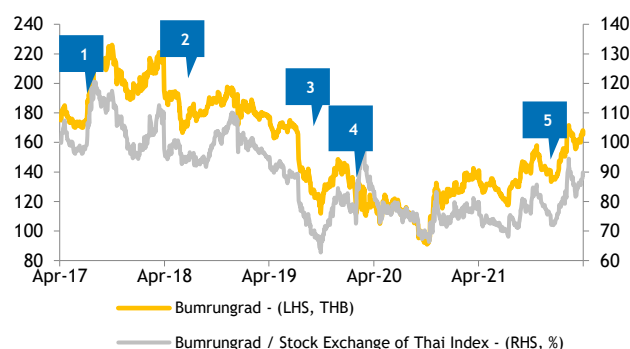
EBITDA margin and net profit margin



Source: BH and MST

Price Drivers

Historical share price trend



Source: Company, MST

- Operations improving, led by increase in revenue from Chinese patients (40% YoY).
- Weak 2Q18 earnings (+1%YoY), dragged by lower patient volume from Myanmar and China.
- Weak 2Q19 earnings (-25% YoY) and concern about intense competitions, which led BH to offer discounts in selected markets.
- Thailand shut its borders in April 2020 and BH lost revenues from fly-in international patients.
- Reopening in November 2021 led to the return of international patients.

Swing Factors

Upside

- Recovery of international patients to 67% of normalised income sooner than the projected FY23.
- Given BH's large international exposure, the weaker THB could make BH's services more attractive for international patients.
- Higher-than-expected sales from high-intensity treatment, which could lead to higher EBITDA margin than around the 28.9-32.5% projected for FY22E-23E.

Downside

- Ukraine conflict could hurt medical tourism.
- More competition in medical tourism. Other private hospitals may try to capture this market and offer lower fees.
- Direct price control by the Ministry of Commerce could affect EBITDA margin and long-term profit growth.

Risk Rating & Score ¹	29.4 Medium Risk
Score Momentum ²	+0.1
Last Updated	31 May 2022
Controversy Score ³ (25 August 2022)	No Evidence of Controversies

Business Model & Industry Issues

- BH is a premium international hospital operator in Thailand. Its strategy is to provide high-quality treatments to its patients. While patients are generally satisfied with BH's services, the relatively high prices are a concern, especially for domestic patients. BH is required by the Ministry of Commerce to make public the prices of basic medicines, to which BH complies. We think this is fair to all patients.
- About 67% of BH's normalised income is from foreign patients and for this reason BH has been a beneficiary of the re-opening in November 2021. Currently, the company is focusing more on domestic patients but this may take some time to yield results.
- In terms of CSR, BH is focusing on health promotion and health education.

Material E issues

- The company strictly follows applicable laws, rules and regulations related to water and wastewater management, efficient consumption of water, appropriate discharge and treatment of wastewater.
- BH is currently validating and standardising Greenhouse Gas (GHG) emissions reporting. It plans to release a GHG report and a particular goal emission reduction strategy will be released in 2022.
- BH has established enterprise guidelines around the development of new properties with environmentally appropriate landscaping, including water efficiency as part of hospital construction guidelines and implemented water reduction initiatives.

Material S issues

- Since 2003, BH through its Bumrungrad Hospital Foundation has treated 804 underprivileged children with congenital heart disease, free of charge.
- BH set up an "ARSA Bumrungrad" mobile clinic in Bangkok to provide underprivileged people in more than 27 communities in Bangkok with free medical services since 2001. In 2021, the mobile clinic provided health checks to 378 people.

Key G metrics and issues

- The company's directors must not hold directorships in more than 5 companies.
- BH paid THB18.75m to the board of directors in FY21 or 1.5% of net profit.
- There are 12 directors on the board, 4 of whom are independent, 3 are women and 3 are non-executive directors.
- The 4 independent directors on the board account for 40%, more than one-third required by SET.
- There are 4 directors in the audit committee, all of whom are independent.
- EY Office is BH's auditor. BH paid THB4.525m to EY Office for audit fees in 2021.
- There are four channels that employees and customers can make complaints or suggestions: 1) comment boxes; 2) online; 3) email; and 4) call centre that can receive internal and external anonymous reports in multiple languages.
- BH has a Corporate Social Responsibility (CSR) committee to manage CSR activities. There are two areas that BH focuses on, in terms of CSR: health promotion and health education.
- The audit committee is responsible for risk assessment and designing risk management systems.
- There is concentration risk as about 67% of BH's normalised revenues are from foreign patients. During Covid, BH is affected by the shutdown of borders and BH is now focusing more on domestic patients (through partnership with local hospitals for CoEs), but this will take some time to yield results.
- The company is also required by the Ministry of Commerce to make public the prices of medicines. We think the increased transparency should benefit BH's patients.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: 2Q22 review summary

P&L (THBm)	2Q21	1Q22	2Q22	% chg QoQ	% chg YoY	FY21	FY22E	% chg YoY
Sales	2,994	4,118	4,922	20%	64%	12,460	16,900	36%
COGS (incl. depreciation)	(1,905)	(2,394)	(2,640)	10%	39%	(7,731)	(9,676)	25%
Gross Profit	1,089	1,724	2,282	32%	110%	4,729	7,224	53%
SG&A	(835)	(865)	(887)	3%	6%	(3,296)	(3,887)	18%
Operating Profit	254	859	1,395	62%	450%	1,434	3,337	133%
Net other income	21	34	27	-21%	28%	144	148	3%
Interest income	17	11	9	-19%	-48%	69	101	47%
Intest expense	(31)	(2)	(1)	-52%	-98%	(120)	(5)	-96%
Pretax profit	261	903	1,430	58%	447%	1,527	3,581	135%
Income Tax	(38)	(168)	(254)	51%	561%	(216)	(609)	182%
Associates	(10)	(0)	(0)	1050%	-100%	(12)	(13)	5%
Minority interest	(1)	(10)	(16)	58%	1274%	(24)	(33)	36%
Core profit	212	725	1,161	60%	448%	1,274	2,926	130%
Extraordinaries, GW & FX	5	(0)	5	-1395%	13%	(58)	0	-100%
Reported net profit	216	725	1,166	61%	439%	1,216	2,926	141%
Core EPS	0.27	0.91	1.46	60%	448%	1.60	3.68	130%
EPS	0.27	0.91	1.47	61%	439%	1.60	3.68	130%
Key ratios								
Gross margin (%)	36.4%	41.9%	46.4%	4.5%	10.0%	38.0%	42.7%	4.8%
SG&A/Revenue (%)	27.9%	21.0%	18.0%	-3.0%	-9.9%	26.5%	23.0%	-3.5%
EBITDA margin (%)	19.1%	28.4%	34.6%	6.1%	15.5%	21.0%	28.0%	7.0%
Net profit margin (%)	7.2%	17.6%	23.7%	6.1%	16.5%	9.8%	17.3%	7.6%

Source: BH and MST

Fig 2: Peer summary

Ticker	Name	Mkt cap USDb	Price (LC)	P/E (x)		P/BV (x)		ROE (%)		Yield(%)		EV/EBITDA		EPS growth(%)	
				FY 22E	FY 23E	FY 22E	FY 23E	FY 22E	FY 23E	FY 22E	FY 23E	FY 22E	FY 23E	FY 22E	FY 23E
Thai Healthcare															
BCH TB	BANGKOK CHAIN HOSPITAL PCL	1.3	19.10	11.6	23.3	3.4	3.3	31.8	14.9	4.1	2.2	7.8	13.2	-40.3	-50.1
BDMS TB	BANGKOK DUSIT MED SERVICE	12.5	28.25	41.2	37.9	5.1	4.9	12.5	12.9	1.5	1.6	22.4	20.9	33.2	8.6
BH TB	BUMRUNGRAD HOSPITAL PCL	4.8	217.00	46.4	39.2	9.2	8.4	21.1	22.7	1.4	1.5	29.7	25.9	223.2	18.3
CHG TB	CHULARAT HOSPITAL PCL	1.1	3.62	13.7	28.3	4.9	4.8	35.0	17.5	4.4	2.5	10.3	17.9	-30.9	-51.5
PR9 TB	PRARAM 9 HOSPITAL PCL	0.4	17.80	27.4	25.7	3.0	2.8	11.5	10.8	1.7	1.8	14.0	13.7	104.6	6.8
RJH TB	RAJTHANEE HOSPITAL PCL	0.3	37.25	10.9	24.9	5.1	5.1	52.6	20.4	7.0	3.2	8.5	16.4	1.4	-56.3
THG TB	THONBURI HEALTHCARE GROUP PC	1.6	68.50	46.3	90.4	5.8	5.7	12.5	6.2	1.0	0.6	24.3	34.8	-6.9	-48.8
VIBHA TB	VIBHAVADI MEDICAL CENTER PCL	1.0	2.64	29.3	33.0	2.3	2.3	6.4	6.1	2.3	1.5	22.4	23.5	-27.3	-11.1
	Average			28.4	37.8	4.9	4.6	22.9	13.9	2.9	1.9	17.4	20.8	32.1	-23.0
Regional Healthcare															
RHC AU	RAMSAY HEALTH CARE LTD	11.6	72.92	54.3	30.1	4.1	3.8	8.3	12.9	1.5	2.0	15.0	14.1	87.8	80.0
IHH SP	IHH HEALTHCARE BHD	12.5	1.97	33.7	29.4	0.7	0.7	6.9	7.3	3.2	3.7	29.7	23.8	10.6	14.9
RYM NZ	RYMAN HEALTHCARE LTD	2.9	9.35	16.9	14.0	1.2	1.1	7.6	8.7	2.3	2.4	12.3	11.1	77.1	21.0
APHS IN	APOLLO HOSPITALS ENTERPRISE	7.6	4,213.55	59.6	42.0	9.4	7.9	16.5	19.9	0.2	0.3	13.6	14.1	-3.4	41.9
KPJ MK	KPJ HEALTHCARE BERHAD	0.8	0.87	31.1	22.9	1.7	1.6	5.6	7.4	1.6	2.1	22.2	19.6	132.4	35.7
RFMD SP	RAFFLES MEDICAL GROUP LTD	1.8	1.33	25.6	26.6	2.5	2.4	9.8	9.0	2.0	2.0	39.8	31.2	10.7	-3.8
MIKA IJ	MITRA KELUARGA KARYASEHAT TB	2.5	2,580.00	34.3	30.6	6.3	5.5	19.0	19.3	1.7	1.3	14.6	13.5	-11.9	12.1
	Average			36.5	27.9	3.7	3.3	10.5	12.1	1.8	2.0	20.0	18.1	43.3	28.8
	Average - Bloomberg consensus			32.4	32.9	4.3	4.0	16.7	13.0	2.4	1.9	18.7	19.4	37.7	2.9

Source: Bloomberg

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	77.5	87.7	59.5	43.4	39.9
Core P/E (x)	79.5	87.9	59.5	43.4	39.9
P/BV (x)	5.1	6.5	9.6	8.4	7.5
P/NTA (x)	7.2	9.1	13.5	11.8	10.5
Net dividend yield (%)	2.7	2.3	0.8	1.0	1.1
FCF yield (%)	nm	4.9	1.9	3.4	3.9
EV/EBITDA (x)	37.4	40.1	35.1	27.1	25.4
EV/EBIT (x)	70.8	70.1	49.2	35.3	33.1

INCOME STATEMENT (THB m)

Revenue	12,362.1	12,460.4	16,899.9	18,970.5	19,733.7
EBITDA	2,588.4	2,757.6	4,880.4	6,166.5	6,393.3
Depreciation	(1,220.1)	(1,179.9)	(1,395.3)	(1,443.2)	(1,491.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,368.3	1,577.6	3,485.1	4,723.3	4,901.8
Net interest income / (exp)	0.3	(51.0)	95.9	165.4	414.7
Associates & JV	(2.4)	(12.4)	(13.0)	(13.7)	(14.4)
Exceptionals	4.7	(58.4)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,370.9	1,455.9	3,568.0	4,875.0	5,302.1
Income tax	(149.7)	(215.8)	(608.8)	(831.1)	(903.8)
Minorities	(17.1)	(24.4)	(33.1)	(37.8)	(40.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,204.1	1,215.7	2,926.1	4,006.1	4,358.3
Core net profit	1,199.4	1,274.0	2,926.1	4,006.1	4,358.3

BALANCE SHEET (THB m)

Cash & Short Term Investments	1,229.4	1,802.0	3,043.9	7,500.1	12,339.3
Accounts receivable	2,205.5	1,461.0	451.3	(682.1)	(1,861.2)
Inventory	309.2	327.6	414.1	429.7	448.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	11,725.7	11,532.5	11,223.2	9,970.0	8,678.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	75.7	1.4	1.4	1.4	1.4
Other assets	8,676.0	5,732.3	7,339.4	8,097.0	8,385.8
Total assets	24,221.7	20,856.8	22,473.4	25,316.0	27,991.7
ST interest bearing debt	2,497.3	40.5	40.5	40.5	40.5
Accounts payable	704.2	805.0	1,017.6	1,056.0	1,101.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	2,184.0	2,393.0	2,906.0	3,145.0	3,233.0
Total Liabilities	5,385.1	3,238.9	3,964.0	4,241.5	4,374.6
Shareholders Equity	18,531.5	17,286.1	18,144.4	20,671.8	23,174.5
Minority Interest	305.1	331.8	364.9	402.7	442.7
Total shareholder equity	18,836.6	17,617.9	18,509.3	21,074.5	23,617.2
Total liabilities and equity	24,221.7	20,856.8	22,473.4	25,316.0	27,991.7

CASH FLOW (THB m)

Pretax profit	1,370.9	1,455.9	3,568.0	4,875.0	5,302.1
Depreciation & amortisation	1,220.1	1,179.9	1,395.3	1,443.2	1,491.5
Adj net interest (income)/exp	(34.8)	(86.0)	95.9	165.4	414.7
Change in working capital	(7,043.7)	3,634.5	55.3	652.3	1,019.9
Cash taxes paid	(156.0)	(229.5)	(595.1)	(807.0)	(842.3)
Other operating cash flow	(324.7)	317.5	(27.1)	(28.2)	(29.3)
Cash flow from operations	(4,970.8)	6,394.0	4,409.3	6,149.0	6,956.3
Capex	(1,050.7)	(951.6)	(1,086.0)	(190.0)	(200.0)
Free cash flow	(6,021.4)	5,442.5	3,323.3	5,959.0	6,756.3
Dividends paid	(2,544.0)	(2,544.9)	(2,067.8)	(1,478.7)	(1,855.6)
Equity raised / (purchased)	230.0	0.0	0.0	0.0	0.0
Change in Debt	2.7	(2,456.8)	0.0	0.0	0.0
Other invest/financing cash flow	1,071.9	131.8	(13.6)	(24.1)	(61.5)
Net cash flow	(7,260.8)	572.6	1,241.9	4,456.1	4,839.2

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(33.1)	0.8	35.6	12.3	4.0
EBITDA growth	(56.1)	6.5	77.0	26.4	3.7
EBIT growth	(70.7)	15.3	120.9	35.5	3.8
Pretax growth	(70.0)	6.2	145.1	36.6	8.8
Reported net profit growth	(67.9)	1.0	140.7	36.9	8.8
Core net profit growth	(69.1)	6.2	129.7	36.9	8.8
Profitability ratios (%)					
EBITDA margin	20.9	22.1	28.9	32.5	32.4
EBIT margin	11.1	12.7	20.6	24.9	24.8
Pretax profit margin	11.1	11.7	21.1	25.7	26.9
Payout ratio	211.2	209.2	45.0	45.0	45.0
DuPont analysis					
Net profit margin (%)	9.7	9.8	17.3	21.1	22.1
Revenue/Assets (x)	0.5	0.6	0.8	0.7	0.7
Assets/Equity (x)	1.3	1.2	1.2	1.2	1.2
ROAE (%)	6.3	6.8	16.5	20.6	19.9
ROAA (%)	4.8	5.7	13.5	16.8	16.4
Liquidity & Efficiency					
Cash conversion cycle	50.2	32.7	0.3	nm	nm
Days receivable outstanding	72.1	53.0	20.4	nm	nm
Days inventory outstanding	15.0	14.8	13.8	15.1	15.1
Days payables outstanding	36.9	35.1	33.9	37.2	37.2
Dividend cover (x)	0.5	0.5	2.2	2.2	2.2
Current ratio (x)	2.4	3.5	3.3	4.3	5.3
Leverage & Expense Analysis					
Asset/Liability (x)	4.5	6.4	5.7	6.0	6.4
Net gearing (%) (incl perps)	6.7	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	6.7	net cash	net cash	net cash	net cash
Net interest cover (x)	na	31.0	na	na	na
Debt/EBITDA (x)	1.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	8.5	7.6	6.4	1.0	1.0
Net debt/ (net cash)	1,267.9	(1,761.5)	(3,003.4)	(7,459.6)	(12,298.8)

Source: Company; Maybank IBG Research

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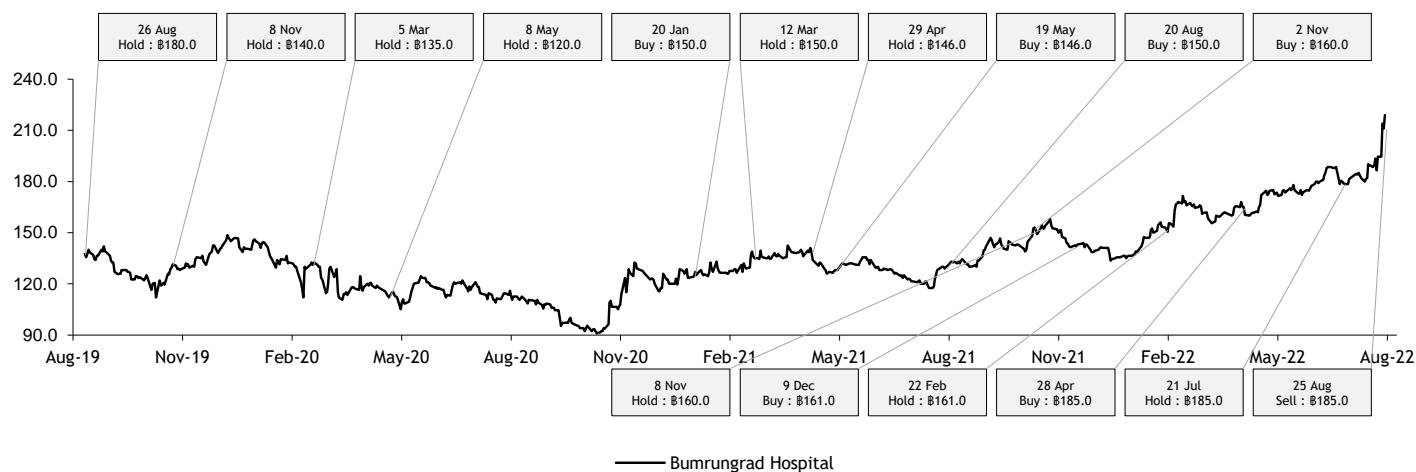
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