

17 March 2020

Consumer Non-cyclical | Healthcare

## Bangkok Chain Hospital (BCH TB)

**Buy** (Maintained)

### Growth To Remain Intact; Keep BUY

Target Price (Return): THB16.00 (+50%)  
 Price: THB10.70  
 Market Cap: USD830m  
 Avg Daily Turnover (THB/USD) 173m/5.62m

- **Keep BUY with a new THB 16.00 TP from THB21.50, 50% upside plus c.2% yield.** While core operations should remain supported by higher payments from the Social Security Office (SSO) and a ramp-up in traffic from new project openings, we view COVID-19 as a key downside risk to Bangkok Chain Hospital's non-Thai segment (<c.15% of revenue) this year.
- **Earnings missed.** Despite solid topline growth (10% YoY) driven by the expansion of its insurance patients base, with higher revenue per visit from outpatients (OPD) and inpatients (IPD), BCH's FY19 earnings came below our and Street expectations by 5% and 7%. This was largely on the revenue reversal of the Social Security Scheme (SSS) that accounted c.35% of total revenue due to the annual budget shortage. However, World Medical Hospital (WMC) and Kasemrad Hospital Ramkhamhaeng (KH RAM) remain growth drivers, with 11% YoY and 89% YoY revenue growth on improved utilisation and higher revenue intensity.
- **Core operations look solid...** This is driven by the upward price adjustment of the SSS that comprised a basic capitalisation increase to THB1,640/head (+9.3%), high cost care (Adj.RW>2) increase to THB746.00/head/year (+16.5%) and risk-adjusted capitalisation on OPD 26 chronic disease increase to THB453.00 (+1.34%). We expect better payment terms with lower budgetary risk this year on the increased annual budget from SSS. Management also guided that revenue growth driver units, ie WMC and KH RAM, should turn a profit at FY20 bottomline.
- **... but COVID-19 dampens outlook.** The acceleration of the pandemic, which resulted in travel bans to Thailand by several countries – eg Kuwait, United Arab Emirates, and Qatar (major revenue contributors of BCHs' non-Thai segment) – should drag FY20 revenue down. This should also impact its new fertility centre, which focuses on Chinese and high-end customers – this may see a delay in the traffic ramp-up.
- **Forecast fine-tuned.** While we expect a trifling shift in patient traffic from the cash segment to SSS, mainly due to sluggish purchasing power prospects, we lower the revenue intensity of cash patients 1-3% from c.5%. We also revise down the non-Thai segment traffic volume to flat vs 3% to incorporate the impact of the travel bans to Thailand, which is likely to prolong through 2020. Our WACC has been raised to 9.7% from 8.8% due to the increase in market risk premium by 1.5% with the adjusted beta.
- **We keep our call,** as BCH remains our sector Top Pick due to its well-diversified revenue portfolio with double-digit earnings growth prospects. The higher revenue from SSS and its new project openings are expected to turn a profit this year and should outweigh the negative impact of the non-Thai segment. A key risk is the medical service and price control that could be imposed by the Government as part of economic support measures.

#### Analyst

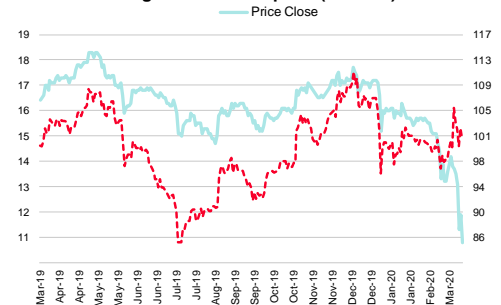
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(37.4)	(30.5)	(38.2)	(31.9)	(35.2)
Relative	(3.6)	1.0	(5.7)	5.2	0.5
52-wk Price low/high (THB)	10.7 – 18.2				

Bangkok Chain Hospital (BCH TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	8,130	8,952	9,885	10,714	11,617
Recurring net profit (THBm)	1,089	1,135	1,270	1,399	1,551
Recurring net profit growth (%)	18.8	4.2	11.9	10.2	10.9
Recurring P/E (x)	24.50	23.51	21.01	19.07	17.20
P/B (x)	4.7	4.3	3.9	3.5	3.2
P/CF (x)	8.70	15.16	9.45	10.84	10.08
Dividend Yield (%)	2.1	2.1	2.4	2.8	3.0
EV/EBITDA (x)	13.63	13.09	10.69	9.66	8.63
Return on average equity (%)	20.0	19.0	19.3	19.4	19.6
Net debt to equity (%)	63.2	67.1	53.5	39.1	23.7

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	0.44	0.46	0.51	0.56	0.62
Consumer Non-cyclical	DPS	0.23	0.22	0.26	0.29	0.33
<b>Bangkok Chain Hospital</b>	BVPS	2.29	2.51	2.76	3.03	3.33
BCH TB	Return on average equity (%)	20.0	19.0	19.3	19.4	19.6
Buy						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Valuation basis</b>	Recurring P/E (x)	24.50	23.51	21.01	19.07	17.20
DCF	P/B (x)	4.7	4.3	3.9	3.5	3.2
	FCF Yield (%)	11.5	6.6	10.6	9.2	9.9
<b>Key drivers</b>	Dividend Yield (%)	2.1	2.1	2.4	2.8	3.0
i. Margins improvement from higher revenue intensity;	EV/EBITDA (x)	13.63	13.09	10.69	9.66	8.63
ii. Ongoing expansion;	EV/EBIT (x)	18.37	18.16	15.67	13.96	12.22
iii. Increasing revenue from the SSO scheme.						
	<b>Income statement (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Key risks</b>	Total turnover	8,130	8,952	9,885	10,714	11,617
i. Intense competition;	Gross profit	2,736	2,900	3,273	3,571	3,908
ii. Change in SSO policy;	EBITDA	2,232	2,376	2,851	3,068	3,304
iii. Poor economic conditions.	Depreciation and amortisation	(576)	(664)	(906)	(944)	(971)
	Operating profit	1,656	1,712	1,945	2,124	2,333
<b>Company Profile</b>	Net interest	(126)	(130)	(137)	(137)	(137)
BCH was established in 1984, and later listed in 2004. The group operates 12 hospitals and one clinic, serving all types of customers in Bangkok and five other provinces.	Pre-tax profit	1,530	1,582	1,808	1,986	2,196
	Taxation	(285)	(286)	(362)	(397)	(439)
	Reported net profit	1,089	1,135	1,270	1,399	1,551
	Recurring net profit	1,089	1,135	1,270	1,399	1,551
	<b>Cash flow (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Change in working capital	1,246	(200)	471	(71)	(80)
	Cash flow from operations	3,067	1,760	2,823	2,462	2,648
	Cash flow from financing activities	(815)	747	0	0	0
	Cash at beginning of period	485	646	792	1,385	2,197
	Net change in cash	2,252	2,507	2,823	2,462	2,648
	Ending balance cash	2,737	3,583	3,615	3,951	5,088
	<b>Balance sheet (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	646	792	1,385	2,197	3,299
	Tangible fixed assets	8,526	9,615	10,109	9,865	9,394
	Total investments	1,009	1,005	1,115	1,221	1,338
	Total assets	12,627	14,115	15,016	15,854	16,779
	Short-term debt	344	718	1,150	1,150	1,150
	Total long-term debt	4,345	4,758	4,345	4,345	4,345
	Total liabilities	6,230	7,137	7,327	7,416	7,509
	Total equity	6,397	6,978	7,689	8,438	9,270
	Total liabilities & equity	12,627	14,115	15,016	15,854	16,779
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	11.3	10.1	10.4	8.4	8.4
	Recurrent EPS growth (%)	18.8	4.2	11.9	10.2	10.9
	Gross margin (%)	33.7	32.4	33.1	33.3	33.6
	Operating EBITDA margin (%)	27.5	26.5	28.8	28.6	28.4
	Net profit margin (%)	13.4	12.7	12.8	13.1	13.4
	Dividend payout ratio (%)	52.7	48.3	50.1	52.5	52.3
	Interest cover (x)	13.1	13.2	14.2	15.5	17.0

Source: Company data, RHB

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Figure 1: DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	1,945	2,124	2,333	2,650	2,829	3,064	3,552	3,981	4,465	5,264
EBIT (1-Tax)	1,556	1,699	1,867	2,120	2,263	2,451	2,841	3,184	3,572	4,211
Plus: Depreciation	906	944	971	998	1,025	1,052	1,079	1,107	1,134	1,161
Less: CAPEX	(1,400)	(700)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)
Net working Capital	548	13	12	2	28	30	0	17	16	(23)
FCFF	1,610	1,956	2,350	2,621	2,817	3,034	3,421	3,808	4,221	4,850
Implicit Growth Rate	2.0%									
WACC	9.7%									
Terminal value	25,324									
PV of FCFF	19,495									
DCF (THBm)	44,818									
Net debt	(4,110)									
Minorities	(803)									
NPV (THBm)	39,905									
<b>Per share (THB)</b>	<b>16.0</b>									

Source: RHB

Figure 2: BCH's FY19 results review

FYE Dec (THBm)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)	Comments
<b>Revenue from hospital operations</b>	<b>2,105.0</b>	<b>2,469.2</b>	<b>2,196.2</b>	<b>(11.1)</b>	<b>4.3</b>	<b>8,073.3</b>	<b>8,880.5</b>	<b>10.0</b>	Increased mainly from better traffic with higher revenue intensity from key segment.
Rental income	17.7	19.8	17.9	(9.9)	1.0	57.7	72.2	25.2	
Interest income	3.1	0.5	1.9	270.3	(37.2)	5.8	4.7	(18.8)	
Other income	13.6	10.9	7.2	(34)	(47.3)	46.0	38.9	(15.4)	
Cost of hospital operations	(1,435.5)	(1,589)	(1,535)	(3.4)	7.0	(5,394)	(6,052)	12.2	Increased largely from new opening hospital and medical center.
Distribution costs	(54.9)	(73.5)	(77.9)	6.0	41.9	(199.1)	(268.1)	34.6	Driven by agency fees used for international market expansion.
Administrative expenses	(233.8)	(243.9)	(242.2)	(0.7)	3.6	(932.8)	(963.6)	3.3	
<b>EBITDA</b>	<b>567.9</b>	<b>762.6</b>	<b>540.1</b>	<b>(29.2)</b>	<b>(4.9)</b>	<b>2,232.5</b>	<b>2,377.1</b>	<b>6.5</b>	
EBITDA margin (%)	27.0	30.9	24.6			27.7	26.8		
Depreciation	(152.7)	(169.4)	(172.6)	1.9	13.0	(576.0)	(664.7)	15.4	Mainly from new openings and medical center.
<b>EBIT</b>	<b>415.2</b>	<b>593.2</b>	<b>367.5</b>	<b>(38.0)</b>	<b>(11.5)</b>	<b>1,656.5</b>	<b>1,712.4</b>	<b>3.4</b>	
Finance costs	(31.7)	(34.7)	(29.4)	<b>(15.3)</b>	<b>(7.3)</b>	(125.8)	(130.7)	3.9	
Share of profit of associate	0.5	0.7	0.2	(71.7)	(61.9)	2.5	2.4	(6.8)	
<b>Pretax profit</b>	<b>384.0</b>	<b>559.2</b>	<b>338.3</b>	<b>(39.5)</b>	<b>(11.9)</b>	<b>1,533.2</b>	<b>1,584.0</b>	<b>3.3</b>	
Tax expense	(81.8)	(100.8)	(61.6)	(38.9)	(24.7)	(285.0)	(286.0)	0.3	
Minorities	(33.8)	(56.3)	(35.9)	(36.2)	6.1	(158.7)	(163.1)	2.8	
<b>Net profit</b>	<b>268.4</b>	<b>402.1</b>	<b>240.8</b>	<b>(40.1)</b>	<b>(10.3)</b>	<b>1,089.5</b>	<b>1,134.9</b>	<b>4.2</b>	Missed our/Street estimations mainly from the revenue reversal from SSS in 4Q19.

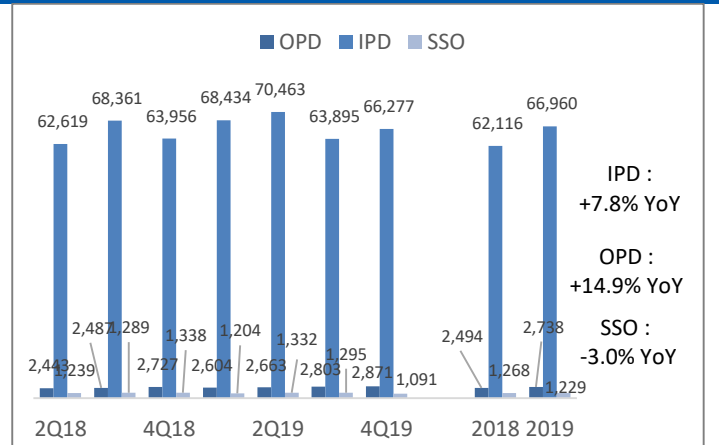
Source: Company data, RHB

Figure 3: Revenue by segment (THBm)



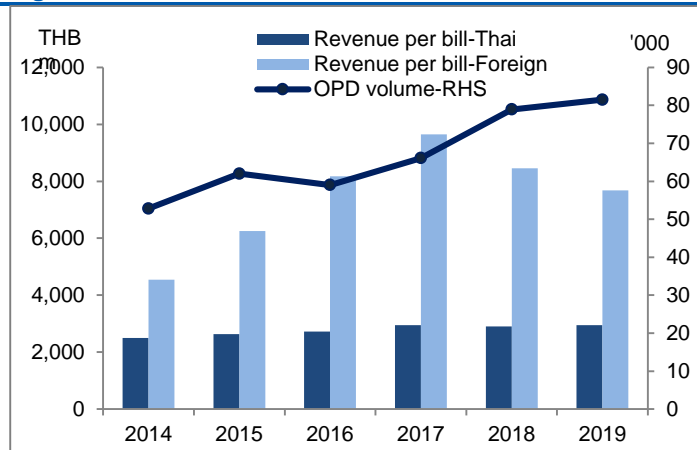
Source: Company data

Figure 4: Revenue per visit (THB)



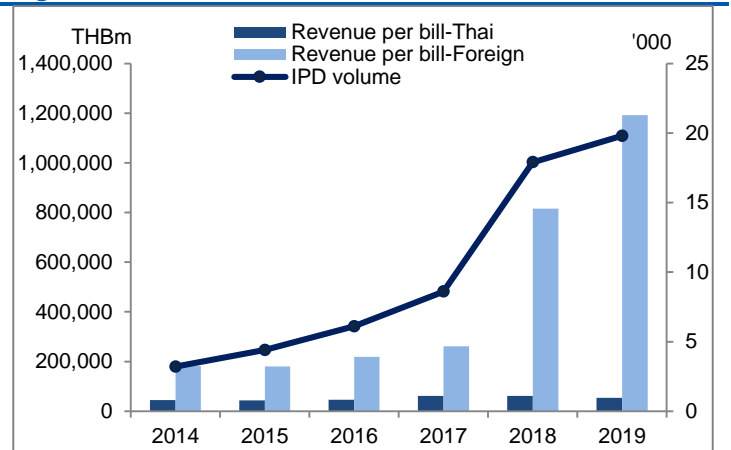
Source: Company data

Figure 5: OPD's revenue detail



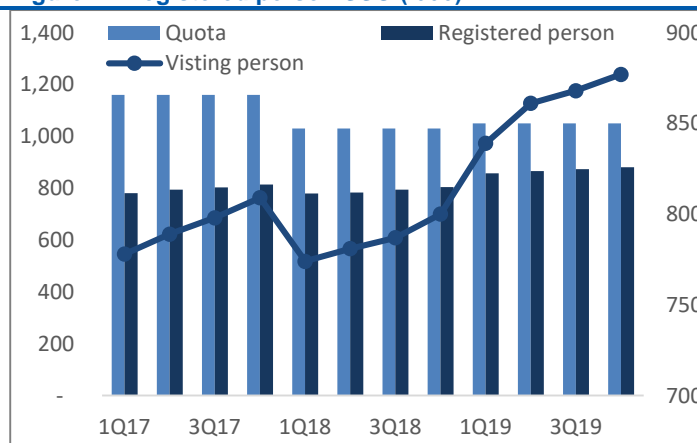
Source: Company data

Figure 6: IPD's revenue detail



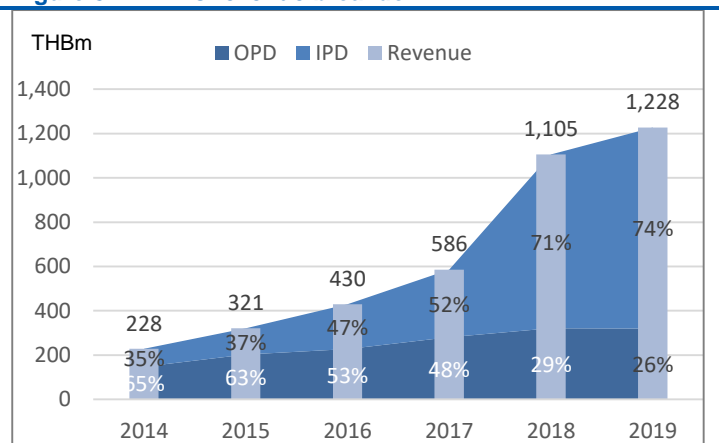
Source: Company data

Figure 7: Registered person SSO ('000)



Source: Company data

Figure 8: WMC's revenue breakdown



Source: Company data

## Recommendation Chart



Date	Recommendation	Target Price	Price
2019-12-03	Buy	21.5	17.1

Source: RHB, Bloomberg

Source: RHB, Bloomberg

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80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนาธรรม CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

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- ได้รับการรับรอง CAC

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