

3 March 2020

Consumer Non-cyclical | Healthcare

Bangkok Dusit Medical Services (BDMS TB)

Buy (Maintained)

Short-Term Impact From COVID-19; Keep BUY

Target Price (Return): THB25.00 (13%)
 Price: THB22.20
 Market Cap: USD11,184m
 Avg Daily Turnover (THB/USD) 761m/24.8m

- **Keep BUY, with a lower TP of THB25.00, from THB28.00, 13% upside and c.2% yield.** While core earnings in FY19 were in line with our/Street estimates, the COVID-19 outbreak is expected to dampen its hospital operation outlook in 1H20. The voluntary tender offer for Bumrungrad Hospital (BH TB, BUY, TP: THB157.00) will need some time to become concrete as it first requires approvals from both its AGM and the Office of Trade Competition Commission (OTCC).
- **FY19 core earnings in line.** Despite an increased (+7% YoY) patient revenue, driven by a higher volume and improved revenue intensity in both Thai and international segments, core earnings were flat (-0.8% YoY) on a lower EBIT margin (14.5% in FY19 vs 15.1% in FY18), largely due to higher staff and depreciation costs from new projects. However, its hub & spoke strategy is coming to fruition as ex-Bangkok hospital revenue continued to outgrow the revenue from its Bangkok facilities; the centre of excellence (COE) units grew 8% and contributed c.55% of group EBITDA.
- **Higher volume of insurance-based patients.** Its strategic focus shift to private health insurance through its partnerships should stabilise its revenue base amid a sluggish economy. The increased revenue share from the middle-income segment should help ramp up utilisation rates in the longer term, along with an expansion of bed capacity. Management has raised its target for the insurance portion to 35% this year (vs 31% in 2019).
- **COVID-19 impact.** After the recent acceleration of the COVID-19 outbreak, BDMS began to experience a lower patient traffic and we think the travel bans imposed on Thailand by several countries (eg UAE, the highest growth market last year) could lower its 1H20 revenue. Meanwhile, the BDMS Wellness Clinic and Movenpick BDMS Wellness Resort should take more time to turn to profit on the EBITDA level.
- **BH tender offer pending.** BDMS announced a voluntary tender offer for BH for all outstanding shares (684.9m shares in total, including shares from a convertible bond) at a preliminary price of THB125.00/share. We note that this offer price is subject to a potential upward revision (not more than 20%) depending on market conditions, and would require approval from both the AGM and OTCC. While this is expected to be earnings-accretive, we see only a small possibility that this tender offer would succeed, given that BH's major shareholder showed little interest in selling its shares, with an offer price that has a relatively low premium.
- **Forecast fine-tuned.** In tandem with the revenue guidance cut by management, we reduce our FY20-21F patient service revenue by 2-4%, mainly from lower international revenue and patient traffic.
- **Key risks:** worse-than-expected COVID-19 outbreak, a longer travel ban to Thailand and slower economic conditions.

Analyst

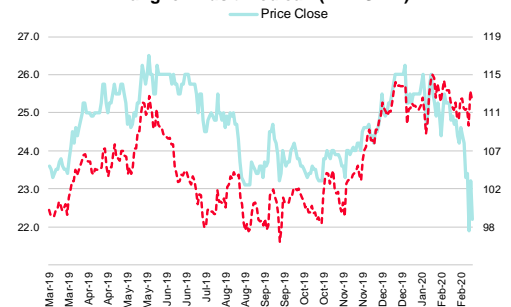
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.6)	(12.1)	(9.8)	(5.1)	(5.9)
Relative	0.6	(0.7)	6.3	12.0	13.0
52-wk Price low/high (THB)	21.9 – 26.5				

Bangkok Dusit Medical (BDMS TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	77,373	82,722	86,402	90,553	95,702
Recurring net profit (THBm)	9,193	10,055	10,458	11,372	11,931
Recurring net profit growth (%)	25.3	9.4	4.0	8.7	4.9
Recurring P/E (x)	37.32	34.12	32.81	30.17	28.76
P/B (x)	5.3	4.5	4.2	4.0	3.8
P/CF (x)	24.05	16.73	20.66	19.69	18.96
Dividend Yield (%)	2.0	1.8	1.8	2.0	2.1
EV/EBITDA (x)	15.57	16.76	14.52	13.99	13.22
Return on average equity (%)	16.7	21.9	13.3	13.6	13.5
Net debt to equity (%)	46.3	21.4	15.4	7.0	(0.9)

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	0.59	0.65	0.68	0.74	0.77
Consumer Non-cyclical	DPS	0.45	0.39	0.41	0.44	0.46
Bangkok Dusit Medical Services	BVPS	4.21	4.96	5.24	5.57	5.90
BDMS TB	Return on average equity (%)	16.7	21.9	13.3	13.6	13.5
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	37.32	34.12	32.81	30.17	28.76
DCF-based (WACC:7.5%, TG: 1.5%)	P/B (x)	5.3	4.5	4.2	4.0	3.8
	FCF Yield (%)	0.3	6.8	2.9	3.7	4.2
Key drivers	Dividend Yield (%)	2.0	1.8	1.8	2.0	2.1
i. Increase in volume from a pickup in number of patients and expansion of hospitals,	EV/EBITDA (x)	15.57	16.76	14.52	13.99	13.22
ii. Room to raise prices,	EV/EBIT (x)	23.28	25.53	22.49	20.73	19.52
iii. New high-margin BDMS wellness clinic,						
iv. Margin improvements from synergy in its hospital network.						
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	77,373	82,722	86,402	90,553	95,702
i. Economic conditions,	Gross profit	26,872	28,446	30,024	31,165	33,617
ii. Tough competition,	EBITDA	16,260	16,752	19,063	19,343	19,966
iii. Slowing flow of medical tourists; and	Depreciation and amortisation	(5,386)	(5,752)	(6,751)	(6,289)	(6,446)
iv. Potential loss from BDMS Wellness during its initial operation.	Operating profit	10,874	11,000	12,311	13,054	13,520
	Net interest	(1,165)	(928)	(1,044)	(779)	(693)
Company Profile	Pre-tax profit	13,333	19,884	13,501	14,685	15,428
Bangkok Dusit Medical operates a group of leading private hospitals with a nationwide network. The group provides services to both local and foreign patients. Growth drivers come from local and regional expansion via greenfield projects and M&As.	Taxation	(2,739)	(3,873)	(2,511)	(2,739)	(2,878)
	Reported net profit	10,138	15,519	10,458	11,372	11,931
	Recurring net profit	9,193	10,055	10,458	11,372	11,931
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	918	(238)	(186)	184	136
	Cash flow from operations	14,264	20,503	16,611	17,429	18,092
	Capex	(13,350)	2,818	(6,536)	(4,837)	(3,611)
	Cash flow from investing activities	(13,350)	2,818	(6,536)	(4,837)	(3,611)
	Dividends paid	(5,598)	(6,941)	(6,032)	(6,275)	(6,823)
	Cash flow from financing activities	641	(15,486)	(6,573)	(8,964)	(8,980)
	Cash at beginning of period	5,663	5,850	5,595	9,097	12,725
	Net change in cash	1,555	7,835	3,502	3,627	5,502
	Ending balance cash	5,850	5,595	9,097	12,725	18,226
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	5,850	5,595	9,097	12,725	18,227
	Tangible fixed assets	74,803	78,945	78,624	77,061	74,108
	Total investments	23,920	18,882	19,825	20,816	21,856
	Total assets	133,499	133,813	138,428	142,052	146,302
	Short-term debt	15,114	5,216	4,101	4,202	5,103
	Total long-term debt	24,733	19,099	19,099	15,279	12,223
	Total liabilities	60,061	46,480	46,563	44,972	43,987
	Total equity	73,438	87,333	91,865	97,080	102,315
	Total liabilities & equity	133,499	133,813	138,428	142,052	146,302
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	7.6	6.9	4.4	4.8	5.7
	Recurrent EPS growth (%)	25.3	9.4	4.0	8.7	4.9
	Gross margin (%)	34.7	34.4	34.7	34.4	35.1
	Operating EBITDA margin (%)	21.0	20.3	22.1	21.4	20.9
	Net profit margin (%)	13.1	18.8	12.1	12.6	12.5
	Dividend payout ratio (%)	68.5	38.9	60.0	60.0	60.0
	Capex/sales (%)	17.3	(3.4)	7.6	5.3	3.8
	Interest cover (x)	9.33	11.85	11.79	16.75	19.51

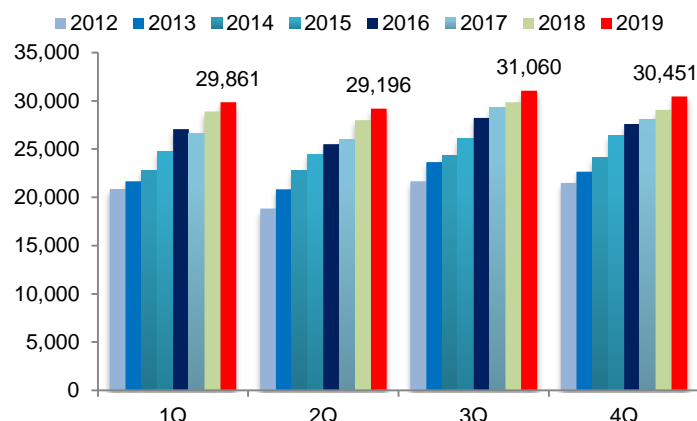
Source: Company data, RHB

Figure 1: DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	19,790	13,601	14,473	15,081	17,831	20,750	23,106	25,276	29,013	33,119
EBIT (1-Tax)	15,832	10,881	11,579	12,065	14,265	16,600	18,485	20,221	23,211	26,495
Plus: Depreciation	5,752	6,751	6,289	6,446	6,607	6,773	6,942	7,115	7,293	7,476
Less: CAPEX	(8,480)	(6,430)	(4,726)	(3,494)	(3,581)	(3,671)	(3,763)	(3,857)	(3,953)	(4,052)
Net working capital	(238)	(186)	184	136	120	147	343	509	480	848
FCFF	12,866	11,016	13,326	15,153	17,411	19,849	22,008	23,988	27,031	30,767
Implicit Growth Rate	1.5%									
WACC	8.0%									
Terminal value	258,625									
PV of FCFF	150,811									
DCF (THBm)	409,436									
Net debt	(14,102)									
Minorities	(3,537)									
NPV to Equity	391,796									
No. of outstanding shares (m)	15,455									
Per share (THB)	25.0									

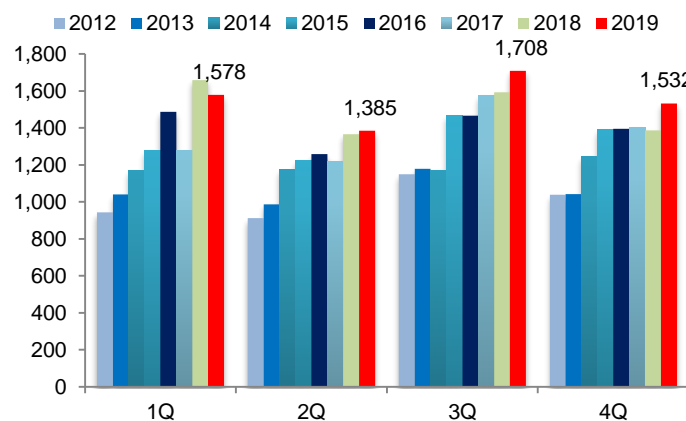
Source: RHB

Figure 2: Overall average visits per day (OPD)



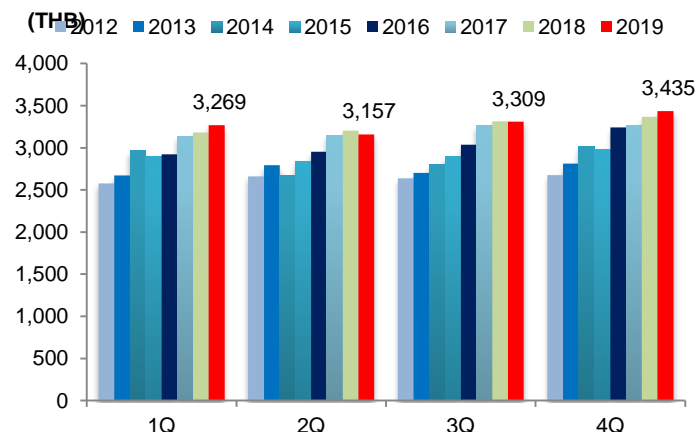
Source: Company data

Figure 3: Overall average admissions per day (IPD)



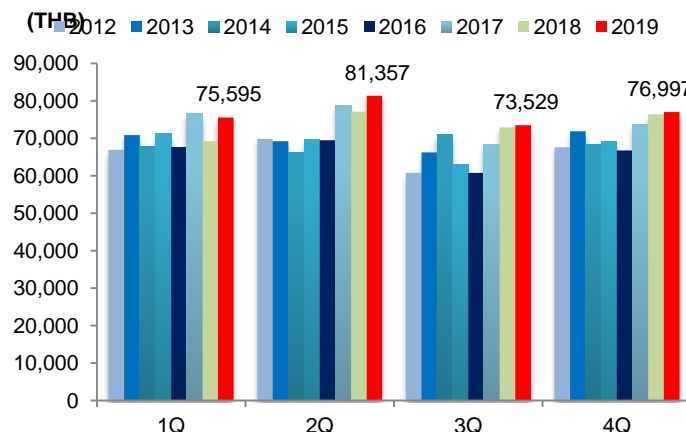
Source: Company data

Figure 4: Average revenue per visit per day (OPD)



Source: Company data

Figure 5: Average revenue per admission (IPD)



Source: Company data

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Figure 6: BDMS's FY19 result review

FYE Dec (THBm)	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)	Comments
Revenue	19,711	21,920	21,495	(1.9)	9.1	78,363	83,894	7.1	
Hospital operation income	18,591	20,838	20,307	(2.5)	9.2	74,286	79,630	7.2	In line with its guidance drove by the increased of traffic and revenue intensity.
Non hospital income (F&B)	806	786	832	5.9	3.2	3,087	3,092	0.2	
Others	314	296	356	20.3	13.4	990	1,172	18.4	
Cost of hospital & services	(12,914)	(13,961)	(13,810)	(1.1)	6.9	(50,501)	(54,276)	7.5	Increased from higher overhead cost from new facilities.
<i>Gross Margin (%)</i>	34.5	36.3	35.8			35.6	35.3		
EBITDA	3,242	4,827	4,493	(6.9)	38.6	16,260	16,752	3.0	
<i>EBITDA Margin (%)</i>	16.4	22.0	20.9			20.7	20.0		
Depreciation	(1,361)	(1,487)	(1,499)	0.8	10.1	5,386	5,752	6.8	Up from additional depreciation from BDMS Wellness Center
EBIT	2,195	3,636	2,994	(17.7)	36.4	11,864	12,172	2.6	
<i>EBIT Margin (%)</i>	11.1	16.6	13.9			15.1	14.5		
Interest expense	(294)	(173)	(205)	18.5	(30.3)	(1,165)	(928)	(20.3)	
Interest income									
Associates	553	291	247	(15.1)	(55.3)	1,690	1,022	(39.5)	
EI/Others	0	0	0	nm	nm	-	0.0		
Pretax profit	2,454	3,754	3,036	(19.1)	23.7	12,389	12,266	(1.0)	
<i>Pretax Margin (%)</i>	12.4	17.1	14.1			15.8	14.6		
Net Profit	1,351	2,890	2,325	(19.6)	72.1	9,193	15,517	68.8	Mainly from the sales of its investment in Ramkhamhaeng Hospital (RAM TB, NR) in 1Q19.
Core Profit	1,351	2,890	2,325	(19.6)	72.1	10,136	10,053	0.8	Increased slightly despite higher patient revenue mainly from lower margin on the back of the increase of staff cost and depreciation.

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-12-03	Buy	28.0	24.7
2018-12-28	Buy	29.0	24.8

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Not Rated:	Stock is not within regular research coverage

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