

### COMPANY RESULTS

## Chularat Hospital (CHG TB)

3Q19: Earnings Beat Due To Robust Core Operations

**CHG announced robust 3Q19 earnings growth of 78% yoy thanks to a solid performance from core operations as well as the windfall from the change in SSO payments during the quarter. Losses generated from the two latest hospitals are narrowing. Upgrade to BUY with a new target price of Bt2.75.**

### 3Q19 RESULTS

Year to 31 Dec (Btm)	3Q19	3Q18	2Q19	yoy % chg	qoq % chg
Sales	1,431	1,149	1,179	24.5	21.4
Gross Profit	495	323	312	53.5	58.6
EBITDA	418	259	251	61.1	66.3
Pre-tax Profit	325	182	146	78.6	123.1
Net Profit	269	151	123	78.2	118.9
Core Profit	269	151	136	78.2	97.0
EPS (Bt)	0.024	0.014	0.011	78.2	118.9
Gross Margin (%)	34.6	28.1	26.5		
EBITDA Margin (%)	29.2	22.6	21.3		
Net Margin (%)	18.8	13.1	10.4		

Source: Chularat Hospital Public Company Limited, UOB Kay Hian

### RESULTS

• **Solid net profit growth.** Chularat Hospital Public Company Limited (CHG) announced 3Q19 net profit of Bt269m, representing a jump of 78% yoy. Key earnings growth drivers during the quarter were: a) an increase in Social Security Office (SSO) revenue, b) a strong increase in cash-paying patients, and c) lower losses from the two latest hospitals. Note that CHG benefited from a change in SSO payments relating to 26 chronic diseases in 3Q19. According the company, CHG recorded nearly a Bt74m one-time gain from the change in payments. Excluding the one-time items, CHG's core profit came in at around Bt195m, 4-5% above our (Bt188m) and consensus (Bt186m) estimates.

### KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	3,876	4,407	4,988	5,457	5,913
EBITDA	992	1,048	1,095	1,270	1,458
Operating profit	737	772	798	955	1,123
Net profit (rep./act.)	565	634	647	761	881
Net profit (adj.)	587	623	660	761	881
EPS (Bt)	0.1	0.1	0.1	0.1	0.1
PE (x)	46.5	43.8	41.3	35.9	31.0
P/B (x)	8.3	7.7	7.0	6.5	6.1
EV/EBITDA (x)	28.2	26.7	25.6	22.1	19.2
Dividend yield (%)	1.5	0.8	1.2	1.7	2.3
Net margin (%)	14.6	14.4	13.0	13.9	14.9
Net debt/(cash) to equity (%)	13.5	20.6	14.3	7.0	2.3
Interest cover (x)	74.0	51.8	37.7	43.8	50.3
ROE (%)	17.6	18.5	17.4	18.8	20.4
Consensus net profit	-	-	675	776	878
UOBKH/Consensus (x)	-	-	0.98	0.98	1.00

Source: Chularat Hospital Public Company Limited, Bloomberg, UOB Kay Hian

## BUY

(Upgraded)

Share Price	Bt2.48
Target Price	Bt2.75
Upside	+10.8%
(Previous TP)	Bt2.70

### COMPANY DESCRIPTION

CHG was established in 1986 and is one of the leading hospital chains in Thailand. CHG has been operating for more than 30 years in Samutprakarn and surrounding provinces.

### STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	CHG TB
Shares issued (m):	11,000.0
Market cap (Btm):	27,280.0
Market cap (US\$m):	901.9
3-mth avg daily t'over (US\$m):	2.4

### Price Performance (%)

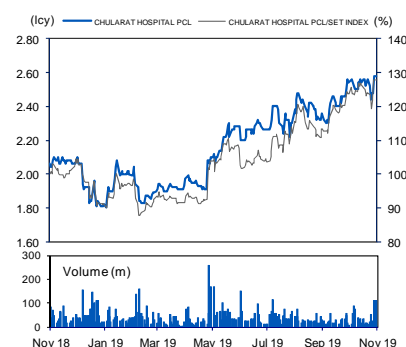
52-week high/low	Bt2.56/Bt1.80			
1mth	3mth	6mth	1yr	YTD
0.8	11.7	29.8	14.8	29.2

### Major Shareholders

	%
Plussind Group	40
Panyapol Group	20
Others	40

FY19 NAV/Share (Bt)	0.35
FY19 Net Debt/Share (Bt)	0.05

### PRICE CHART



Source: Bloomberg

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- **Revenue grew 25% yoy.** Revenue in 3Q19 rose by nearly 25% yoy, supported by revenue growth from both cash-paying patients as well as government welfare schemes. Cash-paying patients' revenue still posted double-digit growth in 3Q19. Out-patient-department volume and in-patient-department volume grew +8.1% yoy and +18.4% yoy respectively. With the strong growth in terms of patient volume in the quarter, revenue from cash-paying patients expanded 17% yoy. Meanwhile, revenue from government schemes grew 39% yoy thanks to a higher SSO payments as well as SSO registered patient count.

### STOCK IMPACT

- **Lower losses from two latest hospitals.** Based on our estimate, losses generated from both Chularat 304 hospital and RPC hospital reached Bt25m, lower vs 2Q19's figure (Bt37m). We expect the financial performances of both hospitals to continue to improve going forward. CHG is well on its track to achieve its target of having both hospitals reach breakeven point in 2020.

### EARNINGS REVISION/RISK

- **Revise core earnings forecasts up slightly.** We have revised our core earnings forecasts up by 2-3% for 2019-20 due to a better-than-expected performance from the two new latest hospitals. With the current projection, we expect CHG to post net profit growth of 16% in 2020.

### EARNINGS REVISION

	2019F			2020F		
	Old	New	% chg	Old	New	% chg
Sales	4,988	5,128	3	5,457	5,595	3
Core profit	660	673	2	761	780	3

Source: UOB Kay Hian

### VALUATION/RECOMMENDATION

- **Upgrade to BUY with a higher target price of Bt2.75.** Due to a better-than-expected performance from existing medical facilities as well as the possibility of an increase in SSO payments, we upgrade CHG from a HOLD to BUY with a target price of Bt2.75 (from Bt2.70). Our fair price for CHG is based on the DCF method with WACC at 6.39% and terminal growth at 3%. Currently, CHG trades at 35.9x, or at 1SD below its five-year PE mean level.

### SHARE PRICE CATALYST

- An increase in SSO payments.
- Better-than-expected performance of Chularat 304 and RPC hospitals.

### OPD



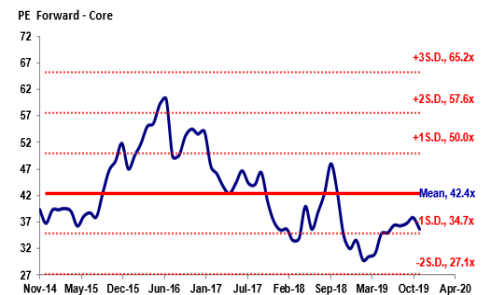
Source: CHG

### IPD



Source: CHG

### PE BAND



Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
<b>Net turnover</b>	<b>4,407</b>	<b>4,988</b>	<b>5,457</b>	<b>5,913</b>
EBITDA	1,048	1,095	1,270	1,458
Deprec. & amort.	276	296	315	335
EBIT	772	798	955	1,123
Associate contributions	0	0	0	0
Net interest income/(expense)	(20)	(29)	(29)	(29)
<b>Pre-tax profit</b>	<b>752</b>	<b>769</b>	<b>926</b>	<b>1,094</b>
Tax	(150)	(150)	(185)	(219)
Minorities	19	45	20	5
<b>Net profit</b>	<b>634</b>	<b>647</b>	<b>761</b>	<b>881</b>
Net profit (adj.)	623	660	761	881

### BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	3,901	3,960	4,006	4,033
Other LT assets	215	199	207	215
Cash/ST investment	494	294	555	547
Other current assets	1,098	1,222	1,282	1,390
<b>Total assets</b>	<b>5,708</b>	<b>5,675</b>	<b>6,051</b>	<b>6,184</b>
ST debt	632	650	650	650
Other current liabilities	664	708	775	840
LT debt	596	200	200	0
Other LT liabilities	74	50	55	59
Shareholders' equity	3,563	3,886	4,191	4,455
Minority interest	180	180	180	180
<b>Total liabilities &amp; equity</b>	<b>5,708</b>	<b>5,675</b>	<b>6,051</b>	<b>6,184</b>

### CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
<b>Operating</b>	<b>803</b>	<b>818</b>	<b>1,062</b>	<b>1,168</b>
Pre-tax profit	765	752	926	1,094
Tax	(150)	(150)	(185)	(219)
Deprec. & amort.	276	296	315	335
Associates	0	0	0	0
Working capital changes	(77)	(90)	(2)	(50)
Non-cash items	(11)	10	8	8
Other operating cashflows	0	0	0	0
<b>Investing</b>	<b>(745)</b>	<b>(363)</b>	<b>(364)</b>	<b>(366)</b>
Capex (growth)	(722)	(355)	(361)	(363)
Investments	0	0	0	0
Others	(23)	(8)	(3)	(3)
<b>Financing</b>	<b>21</b>	<b>(656)</b>	<b>(437)</b>	<b>(811)</b>
Dividend payments	(352)	(323)	(457)	(616)
Issue of shares	0	0	0	0
Proceeds from borrowings	365	(377)	0	(200)
Others/interest paid	7	45	20	5
<b>Net cash inflow (outflow)</b>	<b>79</b>	<b>(200)</b>	<b>262</b>	<b>(9)</b>
Beginning cash & cash equivalent	416	494	294	555
Ending cash & cash equivalent	494	294	555	547

### KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
<b>Profitability</b>				
EBITDA margin	23.8	21.9	23.3	24.7
Pre-tax margin	17.1	15.4	17.0	18.5
Net margin	14.4	13.0	13.9	14.9
ROA	11.9	11.4	13.0	14.4
ROE	18.5	17.4	18.8	20.4
<b>Growth</b>				
Turnover	13.7	13.2	9.4	8.3
EBITDA	5.6	4.5	16.1	14.8
Pre-tax profit	3.9	2.3	20.4	18.2
Net profit	12.1	2.0	17.7	15.7
Net profit (adj.)	6.1	6.0	15.2	15.7
EPS	6.1	6.0	15.2	15.7
<b>Leverage</b>				
Debt to total capital	24.7	17.3	16.3	12.3
Debt to equity	34.4	21.9	20.3	14.6
Net debt/(cash) to equity	20.6	14.3	7.0	2.3
Interest cover (x)	51.8	37.7	43.8	50.3

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