

COMPANY UPDATE

Chularat Hospital (CHG TB)

Growth Momentum Should Continue

We believe CHG's earnings growth momentum should continue into the next year. Losses from its two new hospitals dropped in 3Q19. CHG should outperform the other healthcare stocks under our coverage; hence, it deserves a valuation premium. Maintain BUY. Target price: Bt2.75.

WHAT'S NEW

- **Maintain 2019 targets.** Chularat Hospital (CHG) reaffirms its financial performance target for 2019. Management aims for at least 15% growth in revenue and sustaining net margin at not lower than 14%. In 9M19, revenue grew 15% yoy and net margin was 14.3%.
- **Lower losses at its two new hospitals.** In 3Q19, total losses from Chularat 304 hospital (CHG304) and Ruampat Chachoengsao hospital (RPC) were at around Bt16m, down qoq (2Q19: Bt25m loss). Currently, CHG304 and RPC could generate monthly revenue of Bt25m and Bt10m respectively. According to management, CHG304 and RPC break even at revenue of Bt30m and Bt15m respectively. With good growth in patient volume, CHG304 might reach its breakeven in 4Q19 while RPC could reach breakeven in 1Q20.
- **New building at CHG3 commenced operation.** In Oct 19, CHG commenced operation of a new building adjacent to an existing building at Chularat 3 hospital (CHG3). The new building will be for only Social Security Office (SSO) patients. As SSO patients move to the new building, the existing building can now accommodate more cash-paying patients.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	3,876	4,407	5,128	5,595	6,048
EBITDA	992	1,048	1,117	1,295	1,484
Operating profit	737	772	821	979	1,149
Net profit (rep./act.)	565	634	719	780	901
Net profit (adj.)	587	623	673	780	901
EPS (Bt)	0.051	0.058	0.065	0.071	0.082
PE (x)	48.3	45.5	42.2	36.4	31.5
P/B (x)	8.6	8.0	7.2	6.7	6.3
EV/EBITDA (x)	29.3	27.8	26.0	22.5	19.6
Dividend yield (%)	1.4	0.8	1.3	1.6	2.2
Net margin (%)	14.6	14.4	14.0	13.9	14.9
Net debt/(cash) to equity (%)	13.5	20.6	13.7	6.2	1.5
Interest cover (x)	74.0	51.8	38.5	44.6	51.2
ROE (%)	17.6	18.5	19.2	19.1	20.6
Consensus net profit	-	-	702	804	900
UOBKH/Consensus (x)	-	-	0.96	0.97	1.00

Source: CHG, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt2.58
Target Price	Bt2.75
Upside	+6.7%

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):	28,380.0
Market cap (US\$m):	938.4
3-mth avg daily t'over (US\$m):	2.5

Price Performance (%)

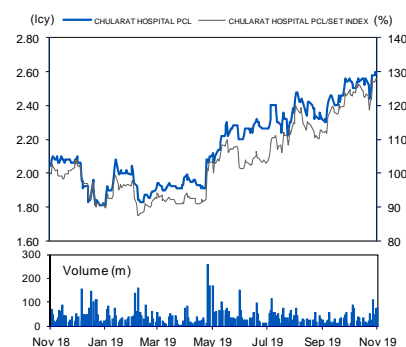
52-week high/low	Bt2.58/Bt1.80			
1mth	3mth	6mth	1yr	YTD
1.6	12.2	22.9	20.6	34.4

Major Shareholders

	%
Plussind Group	40
Panyapol Group	20
Others	40

FY19 NAV/Share (Bt)	0.36
FY19 Net Debt/Share (Bt)	0.05

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **4Q19 earnings to maintain growth momentum.** We expect CHG to report robust net profit growth of 32% yoy to Bt163m in 4Q19, supported by: a) strong growth in revenue from both cash-paying patients and the SSO patient segment; and b) lower losses at CHG304 and RPC. We expect revenue at Bt1.36b, up 20% yoy, due to robust growth in the cash-paying patient segment. Losses from CHG304 and RPC could drop 33% yoy to Bt16m in 4Q19, thanks to continuing increase in patient volumes.

4Q19 RESULTS PREVIEW

Year to 31 Dec (Btm)	4Q19	4Q18	3Q19	yoy % chg	qoq % chg
Sales	1,365	1,139	1,357	19.8	0.6
Gross Profit	378	320	421	18.2	-10.3
EBITDA	242	228	344	6.1	-30
Pre-tax Profit	162	133	325	21.7	-50.4
Net Profit	148	112	269	32.5	-45.0
Core Profit	163	123	195	32.7	-16.5
EPS (Bt)	0.013	0.010	0.024	32.5	-45.0
Gross Margin (%)	27.7	28.1	31.1		
EBITDA Margin (%)	17.7	20.0	25.3		
Net Margin (%)	10.8	9.8	19.8		

Source: CHG, UOB Kay Hian

EARNINGS REVISION/RISK

- None. 9M19 net profit accounted for 79% of our full-year forecast.

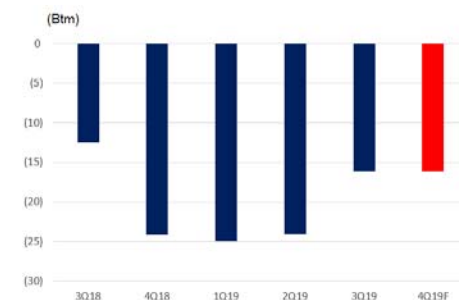
VALUATION/RECOMMENDATION

- **Maintain BUY and target price Bt2.75.** Despite trading at 36x 2020F PE, vs local healthcare peers (32-33x), we believe the premium valuation is justified. CHG's net profit is expected to grow 16% in 2020, higher than the 3-12% growth for the other healthcare stocks under our coverage. As CHG has no new greenfield expansion plan in the next few years, we think CHG will able to grow strongly in the coming years.

SHARE PRICE CATALYST

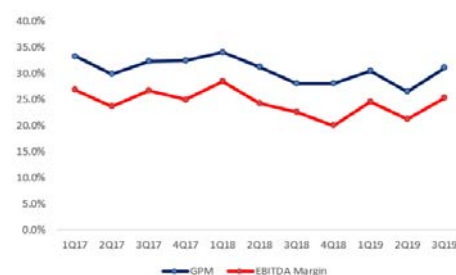
- Better-than-expected operating performances from Chularat 304 and RPC.

EXPECTED LOSSES FROM CHG304 & RPC



Source: CHG, UOB Kay Hian

PROFIT MARGINS



Source: CHG, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	4,407	5,128	5,595	6,048
EBITDA	1,048	1,117	1,295	1,484
Deprec. & amort.	276	296	315	335
EBIT	772	821	979	1,149
Associate contributions	0	0	0	0
Net interest income/(expense)	(20)	(29)	(29)	(29)
Pre-tax profit	752	792	950	1,120
Tax	(150)	(170)	(190)	(224)
Minorities	19	40	20	5
Net profit	634	719	780	901
Net profit (adj.)	623	673	780	901

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	202	209	217
Cash/ST investment	494	315	585	583
Other current assets	1,098	1,256	1,315	1,421
Total assets	5,708	5,732	6,115	6,255
ST debt	632	650	650	650
Other current liabilities	664	728	795	859
LT debt	596	200	200	0
Other LT liabilities	74	51	56	60
Shareholders' equity	3,563	3,922	4,234	4,505
Minority interest	180	180	180	180
Total liabilities & equity	5,708	5,732	6,115	6,255

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	803	881	1,083	1,189
Pre-tax profit	765	849	950	1,120
Tax	(150)	(170)	(190)	(224)
Deprec. & amort.	276	296	315	335
Associates	0	0	0	0
Working capital changes	(77)	(107)	0	(50)
Non-cash items	(11)	13	8	8
Other operating cashflows	0	0	0	0
Investing	(745)	(364)	(364)	(366)
Capex (growth)	(722)	(355)	(361)	(363)
Investments	0	0	0	0
Others	(23)	(9)	(3)	(3)
Financing	21	(697)	(448)	(826)
Dividend payments	(352)	(359)	(468)	(631)
Issue of shares	0	0	0	0
Proceeds from borrowings	365	(377)	0	(200)
Others/interest paid	7	40	20	5
Net cash inflow (outflow)	79	(180)	271	(2)
Beginning cash & cash equivalent	416	494	315	585
Ending cash & cash equivalent	494	315	585	583

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	23.8	21.8	23.1	24.5
Pre-tax margin	17.1	15.4	17.0	18.5
Net margin	14.4	14.0	13.9	14.9
ROA	11.9	12.6	13.2	14.6
ROE	18.5	19.2	19.1	20.6
Growth				
Turnover	13.7	16.4	9.1	8.1
EBITDA	5.6	6.6	15.9	14.6
Pre-tax profit	3.9	5.3	20.0	17.9
Net profit	12.1	13.4	8.5	15.5
Net profit (adj.)	6.1	8.0	15.9	15.5
EPS	6.1	8.0	15.9	15.5
Leverage				
Debt to total capital	24.7	17.2	16.1	12.2
Debt to equity	34.4	21.7	20.1	14.4
Net debt/(cash) to equity	20.6	13.7	6.2	1.5
Interest cover (x)	51.8	38.5	44.6	51.2

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