

COMPANY UPDATE

Bangkok Chain Hospital (BCH TB)

Good Earnings Growth To Continue; 2020 Earnings Likely To Be Upgraded Soon

Despite lower margins during expansions, BCH's new and renovated capacity, new strategy to tap into international patients under KH brands and its good control on financial expenses would enable its sales and core profit to grow at a reasonable rate. Maintain BUY. Target price: Bt20.20. Both 2020 earnings and target price are poised to be upgraded under our base-case scenario.

WHAT'S NEW

- **Payment/head of SC patients is likely to increase next year.** Bangkok Chain Hospital's (BCH) CEO, who is also the chairman of the Private Hospital Association (PHA), has confirmed that the Social Security Office has accepted the proposal for an increase of payment/head for social security scheme (SC) patients. However, the actual rate of increase will be decided on 11 Dec 19. Based on past experience, payment/head was raised in the range of 2-4% for very two years. We therefore do not expect that the payment/head would be raised by 11% (under our best case) as proposed by the PHA. Our base case has suggested an increase of 4% which is the highest seen in past increases of payment/head. In our base-case scenario, BCH's 2020 net profit should increase by 6% to Bt1.4b, while target price/share is to be raised to Bt21.20.
- **SC revenue continues to grow.** BCH's number of SC patients continued to grow by 10% yoy to 873,000 in 3Q19, and we expect this to continue growing to reach 880,000 (+9% yoy) at end-19 and 898,000 (+2% yoy) at end-20. This is supported by the increase in capacity and renovation of existing facilities. We therefore expect SC-based revenue to rise by 11% and 3% yoy to Bt3.0b and Bt3.1b in 2019 and 2020 respectively, accounting for 28-33% of BCH's total revenue.
- **Good growth for cash-based revenue.** In order to improve revenue from cash-based patients following the opening of new hospitals and renovation of existing hospitals, BCH will focus more on attracting international hospitals under the Kasemrad Hospital (KH) brand. BCH will use KH Ramkamhaeng and KH Prachacheun to attract international patients in Bangkok while other KH hospitals in the border towns will attract international patients from neighbouring countries like Myanmar, Cambodia and Laos. We expect its cash-based revenue to grow by 13-14% annually in the next two years. Long-term growth will be supported by the opening of three new hospitals in 2020-21 (KH Aranyaprathet, KH Vientiane and KH Prachinburi)

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	7,254	8,073	9,054	10,034	11,136
EBITDA	1,957	2,123	2,357	2,551	2,749
Operating profit	1,419	1,547	1,688	1,836	1,990
Net profit (rep./act.)	917	1,089	1,184	1,346	1,468
Net profit (adj.)	917	1,089	1,202	1,346	1,468
EPS (Bt)	0.37	0.44	0.48	0.54	0.59
PE (x)	47.0	39.6	35.9	32.0	29.4
P/B (x)	8.3	7.6	6.8	6.1	5.5
EV/EBITDA (x)	24.6	22.7	20.5	18.9	17.5
Dividend yield (%)	1.2	1.3	1.4	1.6	1.7
Net margin (%)	12.6	13.5	13.1	13.4	13.2
Net debt/(cash) to equity (%)	68.4	71.5	68.5	59.9	52.2
Interest cover (x)	14.4	16.8	15.9	18.7	18.3
ROE (%)	18.4	20.0	19.7	20.0	19.6
Consensus net profit	-	-	1,202	1,335	1,452
UOBKH/Consensus (x)	-	-	1.00	1.01	1.01

Source: Bangkok Chain Hospital, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt17.30
Target Price	Bt20.20
Upside	+16.8%

COMPANY DESCRIPTION

The company operates a group of mid-sized hospitals in suburban Bangkok. They target mainly middle income locals as well as clients under the government's sponsored social security scheme.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	BCH TB
Shares issued (m):	2,493.7
Market cap (Btm):	43,141.8
Market cap (US\$m):	1,427.2
3-mth avg daily t'over (US\$m):	5.4

Price Performance (%)

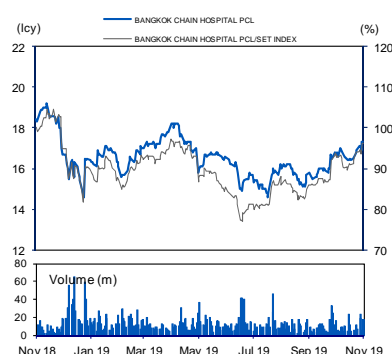
52-week high/low	Bt19.20/Bt14.60			
1mth	3mth	6mth	1yr	YTD
3.6	8.8	4.8	(5.5)	3.6

Major Shareholders

Harnphanich family	50.0
Social Security Office	6.1
Thai NVDR	5.9

FY19 NAV/Share (Bt)	2.54
FY19 Net Debt/Share (Bt)	1.74

PRICE CHART



Source: Bloomberg

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• **WMC's performance continues to grow.** With increasing number of international patients during the high season in 2H19, we expect World Medical Hospital's (WMC) sales and earnings to continue to grow. This is supported by the opening of several new specialised centres, including the enlarged capacity of diabetes foot centre. WMC's performance will be further enhanced next year by the opening of In-Vitro Fertilisation (IVF) centre in Jan 20. For longer-term growth, WMC plans to build a new cancer centre next to the existing WMC building. For now, we expect WMC's sales to grow by 12-15% in the next two years while bottom-line would continue to generate profit. The proportion of international to Thai patients in 9M19 was 76:24 vs 69:31 in 9M18.

STOCK IMPACT

• **Expect good earnings growth in 4Q19.** We expect BCH's 4Q19 sales to grow 13% yoy to Bt2.4b on the high season effect. However, 4Q19 EBITDA margin is expected to soften slightly to 25.0% from 25.4% in 4Q18 on high expenses incurred from the opening of a new hospital, and renovation of existing hospitals. Financial costs are expected to increase from more borrowings. Despite that, we forecast a decent 4Q19 earnings growth of 9% yoy to Bt290m on good sales growth.

EARNINGS REVISION/RISK

• **None.**

• **Core profit to grow 12% next year.** On the back of: a) all expansions in place, b) its new strategy to attract international patients under KH brand, and c) an increasing number of SC patients, we expect BCH's 2019 and 2020 sales to continue to grow by 11-12% yoy to Bt9.1b and Bt10.0b, respectively. Despite the expectation of a lower EBITDA margin of 32% (vs 33% in 2018), good sales growth and lower financial costs would result in 2019 and 2020 core profits increasing by 10% and 12%, to Bt1.2b and Bt1.3b, respectively.

VALUATION/RECOMMENDATION

• **Maintain BUY.** Despite lower margins from expansions, BCH is still able to grow its core profit nicely on the back of good sales and good control over other costs. We therefore maintain our BUY call on BCH with target price at Bt20.20, based on DCF model at a discount rate of 6%. BCH's 2020 earnings and target price should see an upgrade once we know the actual rate of the increase of payment/head for SC patients.

SHARE PRICE CATALYST

• The payment/head paid to SC patients is officially allowed to increase.

RESULTS PREVIEW

Year to 31 Dec (Btm)	4Q19F	yoy % chg	qoq % chg	2019F	yoy % chg
Sales	2,370	12.6	(4.0)	9,054	12.2
Gross Profit	743	10.9	(15.5)	2,924	9.1
EBITDA	593	11.0	(18.9)	2,358	11.1
Net Profit	290	8.5	(27.9)	1,184	8.7
Net Profit (Ex EI)	290	8.5	(27.9)	1,202	10.4
EPS (Bt)	0.12	12.2	(27.9)	0.47	8.7
Gross margin (%)	31.4			32.3	
EBITDA margin (%)	25.0			26.0	
Net margin (%)	12.2			13.1	

Source: UOB Kay Hian

PEER COMPARISON

Company	Stock Code	P/E (x)		EV/EBITDA (x)	Div yield (%)		Earnings Growth (%)	
		2020F	2020F		2020F	2020F	2020F	2020F
Bangkok Dusit	BDMS TB	36.7	4.3	21.8	1.4	12.0	8.1	
Bumrungrad	BH TB	25.3	4.5	15.4	2.0	18.5	2.6	
Bangkok Chain	BCH TB	32.0	6.1	18.9	1.6	20.0	12.0	
Chularat	CHG TB	37.2	6.9	23.0	1.6	19.1	15.2	
Vibhavadi	VIBHA TB	29.4	3.2	16.9	2.2	11.2	10.7	
Raffles Medical	RFMD SP	31.1	2.1	17.5	2.1	7.4	(17.9)	
IHH Healthcare	IHH MK	38.5	1.9	51.7	0.6	4.9	26.1	
KPJ Healthcare	KPJ MK	22.4	2.0	11.3	2.2	9.8	-	
Ramsay	RHC AU	25.4	5.2	10.2	2.2	21.1	2.5	
Apollo	APHS IN	52.8	5.5	16.5	0.5	10.6	40.2	
Local aver.		33.2	4.3	20.4	1.5	12.8	8.2	
Total aver.		33.7	3.9	25.5	1.4	12.5	14.7	

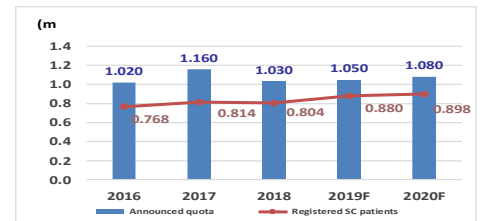
Source: Bloomberg, UOB Kay Hian

% INCREASE OF PAYMENT/HEAD & 2020 NET PROFIT

% inc	Net Profit (Btm)	% chg in Net Profit	Target (Bt)
-	1,346	-	20.20
(Worst) 2.1	1,395	4%	20.70
(Base) 3.6	1,430	6%	21.10
(Best) 11.4	1,611	20%	22.90

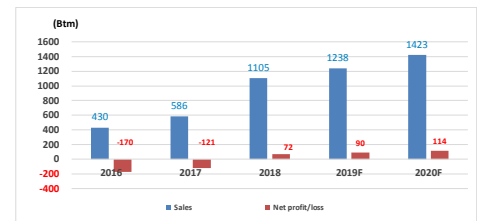
Source: BCH, UOB Kay Hian

SC QUOTA AND SC REGISTERED PERSONS



Source: BCH, UOB Kay Hian

WMC'S PERFORMANCE



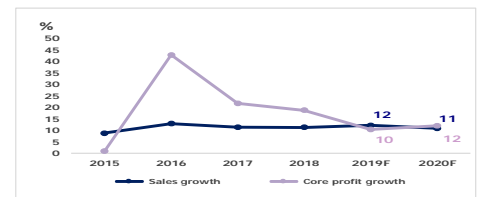
Source: BCH, UOB Kay Hian

BCH'S GREENFIELD PROJECTS

Projects	Bed	Cost (Btm)	Opening
KH Aranyaprathet	90	890	2020
KH Prachinburi (86%)	115	785	1Q21
KH Vientiane, Laos (76%)	254	1,570	1Q21
Total	459	3,2450	

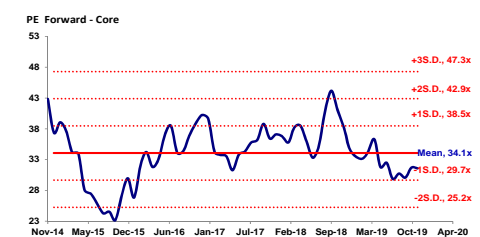
Source: BCH, UOB Kay Hian

SALES AND CORE PROFIT GROWTH



Source: BCH, UOB Kay Hian

PE MEAN AND SD



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	8,073	9,054	10,034	11,136
EBITDA	2,123	2,357	2,551	2,749
Deprec. & amort.	576	670	715	759
EBIT	1,547	1,688	1,836	1,990
Total other non-operating income	109	112	123	136
Associate contributions	3	2	0	0
Net interest income/(expense)	(126)	(148)	(136)	(150)
Pre-tax profit	1,533	1,654	1,823	1,975
Tax	(285)	(307)	(310)	(336)
Minorities	(159)	(145)	(167)	(171)
Net profit	1,089	1,184	1,346	1,468
Net profit (adj.)	1,089	1,202	1,346	1,468

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	8,526	9,377	9,985	10,582
Other LT assets	1,552	1,560	1,568	1,577
Cash/ST investment	746	1,341	1,580	1,068
Other current assets	1,803	2,024	2,245	2,493
Total assets	12,627	14,302	15,378	15,721
ST debt	469	136	1,786	5,186
Other current liabilities	1,271	1,405	1,537	1,693
LT debt	4,354	5,550	4,050	0
Other LT liabilities	136	137	139	140
Shareholders' equity	5,701	6,343	7,099	7,896
Minority interest	696	731	767	806
Total liabilities & equity	12,627	14,302	15,378	15,721

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	1,230	1,614	1,627	1,739
Pre-tax profit	1,530	1,634	1,823	1,975
Tax	(285)	(307)	(310)	(336)
Deprec. & amort.	576	670	715	759
Associates	3	2	0	0
Working capital changes	(591)	(401)	(601)	(660)
Non-cash items	156	161	167	171
Other operating cashflows	(159)	(145)	(167)	(171)
Investing	(1,152)	(1,373)	(984)	(968)
Capex (growth)	(1,152)	(1,373)	(984)	(968)
Others	n.a.	n.a.	n.a.	n.a.
Financing	(1,398)	355	(404)	(1,283)
Dividend payments	(574)	(545)	(592)	(673)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	899	188	0
Loan repayment	(824)	0	0	(610)
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(1,320)	595	239	(512)
Beginning cash & cash equivalent	2,066	746	1,341	1,580
Ending cash & cash equivalent	746	1,341	1,580	1,068

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	26.3	26.0	25.4	24.7
Pre-tax margin	19.0	18.3	18.2	17.7
Net margin	13.5	13.1	13.4	13.2
ROA	8.6	8.8	9.1	9.4
ROE	20.0	19.7	20.0	19.6
Growth				
Turnover	11.3	12.2	10.8	11.0
EBITDA	8.5	11.0	8.2	7.8
Pre-tax profit	10.3	7.9	10.2	8.4
Net profit	18.8	8.7	13.7	9.1
Net profit (adj.)	18.8	10.4	12.0	9.1
EPS	18.8	10.4	12.0	9.1
Leverage				
Debt to total capital	43.0	44.6	42.6	37.3
Debt to equity	84.6	89.6	82.2	65.7
Net debt/(cash) to equity	71.5	68.5	59.9	52.2
Interest cover (x)	16.8	15.9	18.7	18.3

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