

COMPANY UPDATE

**Chularat Hospital (CHG TB)**

2Q23 Earnings To Be Relatively Flat qoq With Moderate Margin Pressure

**CHG's 2Q23 net profit is expected to be relatively flat qoq due to limited margin expansion and seasonality, despite benefitting slightly from a small wave of COVID-19 infections. In 2H23, we expect CHG to encounter moderate margin pressure as the new facilities have commenced operations. Nevertheless, the aforementioned concerns are believed to have been partly priced in. Upgrade to HOLD. Target price: Bt3.06.**

WHAT'S NEW

- **Stable qoq earnings.** We forecast Chularat Hospital (CHG) to post 2Q23 net profit of Bt238m (-73% yoy, flat qoq) and 2Q23 revenue of Bt1,673m (-40% yoy, -2% qoq). The considerable yoy earnings reduction was due to a massive drop in COVID-19-related items (41% of 2Q22's revenue). On a qoq basis, the decline in revenue was due to seasonality, despite it being partly nullified by: a) a small wave of COVID-19 infections in Apr-May 23; and b) an increase in basic capitation rate under the Social Security Office (SSO) scheme from Bt1,640/head/year to Bt1,808/head/year (+10.2%) starting from 1 May 23, which is expected to contribute to a Bt15m increase in 2Q23 revenue.
- **Slight qoq margin expansion.** CHG's 2Q23 gross margin and EBITDA margin are expected to come in at 26.0% and 24.3% respectively, a small improvement of 0.3-0.5% from 1Q23 thanks to a small wave of COVID-19 infections in Apr 23 and more stringent cost control. However, 2Q23 gross margin is expected to remain lower than the second quarters of 2017-19 that were in the range of 27-30% due to: a) CHG's focus on affordable pricing strategy, and b) the agreement on price freeze based on the discussion between the Department of Internal Trade (DIT), the Private Association Hospital Thailand and several private hospitals made on 3 May 23.

2Q23F KEY STATISTICS

Year to 31 Dec (Btm)	2Q23F	2Q22	1Q23	yoy chg (%)	qoq chg (%)
Hospital Operations	1,673	2,784	1,716	-39.9%	-2.5%
General - OPD	520	671	523	-22.5%	-0.6%
General - IPD	530	594	580	-10.7%	-8.6%
Social Security	572	486	563	17.8%	1.6%
NHSO	50	1,033	49	-95.2%	2.0%

Source: CHG, UOB Kay Hian

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	11,742	10,103	7,399	7,909	8,355
EBITDA	5,257	3,947	1,854	1,986	2,254
Operating profit	4,906	3,565	1,426	1,525	1,757
Net profit (rep./act.)	4,204	2,778	1,118	1,205	1,378
Net profit (adj.)	4,204	2,778	1,118	1,205	1,378
EPS (Bt)	0.4	0.3	0.1	0.1	0.1
PE (x)	7.6	11.6	28.7	26.7	23.3
P/B (x)	4.2	4.3	4.3	4.0	3.7
EV/EBITDA (x)	5.9	7.8	16.7	15.6	13.7
Dividend yield (%)	6.8	5.5	2.2	2.1	2.4
Net margin (%)	35.8	27.5	15.1	15.2	16.5
Net debt/(cash) to equity (%)	(30.1)	(15.0)	(20.7)	(21.1)	(23.1)
Interest cover (x)	269.9	387.0	357.1	532.9	996.1
ROE (%)	72.5	36.8	14.9	15.6	16.5
Consensus net profit	-	-	1,228	1,379	1,536
UOBKH/Consensus (x)	-	-	0.91	0.87	0.90

Source: Chularat Hospital, Bloomberg, UOB Kay Hian

**HOLD**

(Upgraded)

Share Price	Bt2.92
Target Price	Bt3.06
Upside	+4.7%

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

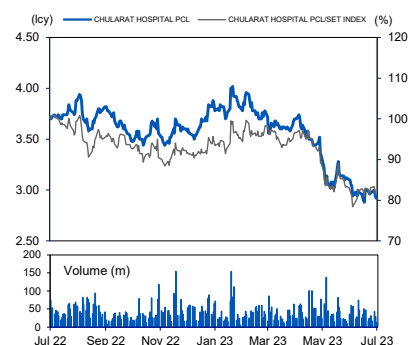
GICS sector	Health Care
Bloomberg ticker:	CHG TB
Shares issued (m):	11,000.0
Market cap (Btm):	32,120.0
Market cap (US\$m):	920.4
3-mth avg daily t'over (US\$m):	3.6
<b>Price Performance (%)</b>	
52-week high/low	Bt4.02/Bt2.88

1mth	3mth	6mth	1yr	YTD
(5.8)	(21.1)	(24.0)	(21.5)	(20.7)

Major Shareholders

	%
Plussind Group	23.8
Panyapol Group	18.4
THAI NVDR COMPANY LIMITED	7.9
FY23 NAV/Share (Bt)	0.68
FY23 Net Cash/Share (Bt)	0.14

PRICE CHART



Source: Bloomberg

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### 2023 RESULTS PREVIEW

Year to 31 Dec (Btm)	2023	2022	1Q23	yoy (%)	qoq (%)
Sales	1,673	2,784	1,716	-40%	-2%
Gross Profit	435	1,288	440	-66%	-1%
EBITDA	406	1,227	411	-67%	-1%
Pre-tax Profit	300	1,133	305	-74%	-2%
Net Profit	238	878	240	-73%	-1%
Core Profit	238	878	240	-73%	-1%
EPS (Bt)	0.022	0.080	0.022	-73%	-1%
Gross Margin	26.0%	46.2%	25.6%		
EBITDA Margin	24.3%	44.1%	24.0%		
Net Margin	14.2%	31.5%	14.0%		

Source: CHG, UOB Kay Hian

### STOCK IMPACT

- CHM launched in mid-Jun 23.** The soft launch of Chularat Mae Sod Hospital (CHM), a new 59-bed greenfield hospital in Tak, was held on 9 Jun 23. The hospital is CHG's first hospital away from the Eastern Thailand focusing on cash-based Thai, Burmese and Chinese patients, signalling a new phase of CHG's expansion for a new patient base. Overall customer feedback has been positive as CHG was well-prepared for the commencement, carrying out staff trainings and marketing. Based on the company's guidance, the launch of CHM will result in monthly depreciation expenses of about Bt3m/month and possibly a small loss during the early stages of operation. The breakeven bed utilisation rate for CHM is estimated at about 50%, which is expected to be reached within 3-5 years.
- CMC to kick off in Jul 23.** The opening of Chularat Medical Center (CMC) is scheduled for mid-Jul 23. The centre is a 50-bed holistic cancer, stroke, advanced wound care and hyperbaric oxygen therapy centre in Samut Prakarn. Because of its location next to Chularat 3 International Hospital (CHG3), the centre may be considered an expansion of CHG3 with shorter breakeven period due to the referral of patients from CHG3. Nevertheless, we still expect a small loss to be recognised after the commencement as well as monthly depreciation expenses of about Bt2m/month. As a result, together with CHM, CHG's 2H23 earnings are expected to be less attractive, although CHG's business strategies are crucial for long-term post-COVID-19 growth in the middle of intensifying competition, particularly in the Eastern Thailand.

### EARNINGS REVISION/RISK

- None.

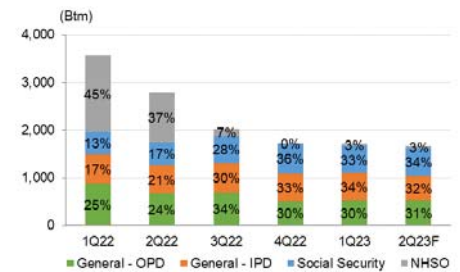
### VALUATION/RECOMMENDATION

- Upgrade to HOLD with an unchanged target price of Bt3.06** based on DCF (WACC: 7.1%, terminal growth 32%), corresponding to 30x 2023F PE, close to -1SD from its five-year pre-COVID-19 historical mean. The current market price has lower downside risk as investors have digested the concern on potential margin pressure resulting from the expansion of new capacity. We expect CHG to see better performance in 2024 as its new investments bear fruit and losses narrow down.

### SHARE PRICE CATALYST

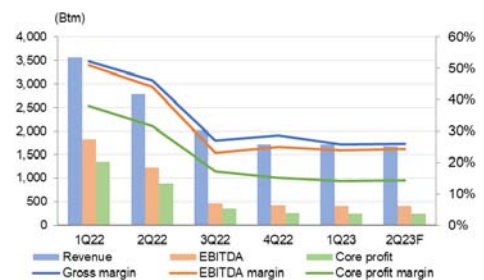
- Higher profitability margins from core operations due to better cost control and increasing margins from new hospitals
- Excellent strategy to maintain CHG's market share in Eastern Thailand and keep away new entrants.
- New emerging infectious diseases.

### QUARTERLY REVENUE BREAKDOWN



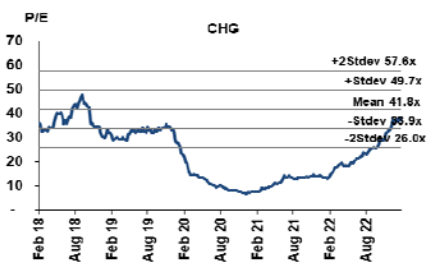
Source: CHG, UOB Kay Hian

### QUARTERLY FORECAST AND RESULTS



Source: CHG, UOB Kay Hian

### CORE PE



Source: CHG, Bloomberg, UOB Kay Hian

### CHULARAT MAE SOD HOSPITAL



Source: CHG, Google

### PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Net turnover	10,103	7,399	7,909	8,355
EBITDA	3,947	1,854	1,986	2,254
Deprec. & amort.	382	427	461	497
EBIT	3,565	1,426	1,525	1,757
Associate contributions	(1)	(10)	0	2
Net interest income/(expense)	(10)	(5)	(4)	(2)
Pre-tax profit	3,554	1,411	1,521	1,756
Tax	(703)	(282)	(304)	(351)
Minorities	(72)	(11)	(12)	(27)
Net profit	2,778	1,118	1,205	1,378
Net profit (adj.)	2,778	1,118	1,205	1,378

### CASH FLOW

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Operating	2,514	2,543	1,626	1,857
Pre-tax profit	3,554	1,411	1,521	1,756
Tax	(703)	(282)	(304)	(351)
Deprec. & amort.	382	427	461	497
Associates	1	0	0	0
Working capital changes	(291)	1,286	(62)	(54)
Non-cash items	(404)	(299)	9	8
Other operating cashflows	(23)	0	0	0
Investing	(854)	(973)	(794)	(834)
Capex (growth)	(794)	(746)	(783)	(822)
Investments	(142)	10	0	(2)
Others	81	(237)	(11)	(9)
Financing	(2,449)	(1,288)	(806)	(834)
Dividend payments	(2,805)	(1,155)	(688)	(715)
Issue of shares	0	0	0	0
Proceeds from borrowings	356	0	0	0
Loan repayment	0	(133)	(119)	(119)
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(789)	282	26	189
Beginning cash & cash equivalent	2,790	2,001	2,283	2,309
Ending cash & cash equivalent	2,001	2,283	2,309	2,499

### BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Fixed assets	4,852	5,170	5,492	5,817
Other LT assets	370	363	374	385
Cash/ST investment	2,001	2,283	2,309	2,499
Other current assets	3,058	1,820	1,945	2,055
<b>Total assets</b>	<b>10,280</b>	<b>9,636</b>	<b>10,120</b>	<b>10,755</b>
ST debt	490	236	236	231
Other current liabilities	1,312	1,061	1,134	1,198
LT debt	381	501	382	268
Other LT liabilities	233	0	0	0
Shareholders' equity	7,523	7,486	8,003	8,666
Minority interest	341	352	364	391
<b>Total liabilities &amp; equity</b>	<b>10,280</b>	<b>9,636</b>	<b>10,120</b>	<b>10,755</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	39.1	25.1	25.1	27.0
Pre-tax margin	35.2	19.1	19.2	21.0
Net margin	27.5	15.1	15.2	16.5
ROA	26.7	11.2	12.2	13.2
ROE	36.8	14.9	15.6	16.5
<b>Growth</b>				
Turnover	(14.0)	(26.8)	6.9	5.6
EBITDA	(24.9)	(53.0)	7.1	13.5
Pre-tax profit	(27.3)	(60.3)	7.8	15.5
Net profit	(33.9)	(59.8)	7.8	14.3
Net profit (adj.)	(33.9)	(59.8)	7.8	14.3
EPS	(33.9)	(59.8)	7.8	14.3
<b>Leverage</b>				
Debt to total capital	10.0	8.6	6.9	5.2
Debt to equity	11.6	9.8	7.7	5.8
Net debt/(cash) to equity	(15.0)	(20.7)	(21.1)	(23.1)
Interest cover (x)	387.0	357.1	532.9	996.1

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