

Thailand Healthcare

2020: Alive and kicking

Maintain POSITIVE; healthy growth to resume in 2020

The Thai healthcare index has dropped 3% YTD and underperformed the SET by 4% due to weak core 2019 EPS growth. However, we expect core EPS to resume healthy growth in 2020 led by improving EBITDA margins. We have BUYs on BDMS, BCH and CHG, and a HOLD on BH. Our top pick is CHG due to outstanding growth in 4Q19 and 2020E will be driven by turnaround of its two new hospitals.

Expect SSO budget to significantly increase

Thailand's medical council has approved the new budget for SSO payment rates which are set to rise by 13% from THB2,707 to THB3,064/head/year, effective Jan 2020. The new budget requires approval by the SSO committee, and we expect an official announcement by end of this year. The 13% hike is much higher than the average 4% CAGR over 2005-18. Thus, this should benefit hospitals that have joined the SSO scheme. Under our coverage, SSO patient revenue contributed 32% to CHG and 33% to BCH. We estimate that the new SSO budget will lift core FY20E EPS by 14-15% for BCH and CHG. Note that we have not factored these in our models yet, pending an official announcement.

Margin improvement next year

We expect to see EBITDA margin improvement for almost all hospitals in 2020E. CHG should see the highest EBITDA margin improvement thanks to the turnaround of two new hospitals which contributed total losses of THB109m in 2019 (15% of core profit). We also expect BDMS's EBITDA margin to improve as it is at the tail end of its capex cycle given that it is close to its target of 50 hospitals. BCH's margin should improve following the turnaround of KH RAM and the opening of the IVF centre at WMC, but it may be partially offset by the opening of its greenfield hospital, KIH Aranyaprathet, in 2Q20. Meanwhile, BH's EBITDA margin is likely to remain flat in 2020 as it continues to offer medical fee discounts for selected markets to maintain its patient volume.

Appealing valuation; top pick CHG

Healthcare stocks under our coverage are trading at an attractive valuation at 26-34x FY20E P/E, compared to an average of 32x for regional peers and a 5-year average of 35x for the overall Thai healthcare sector. We expect to see CHG and BDMS to offer mid-teens EPS growth in 2020E. CHG is our top pick due to i) its best PEG ratio of 2.5x, ii) the highest ROE of 22% in 2020E and iii) less competition than other healthcare providers as all CHG's hospitals are located out of Bangkok, which has started to see intense competition.

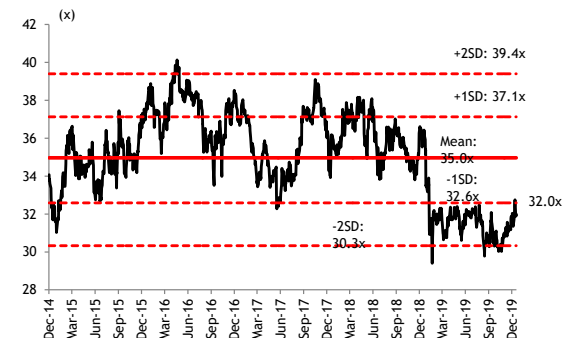
POSITIVE

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Analyst

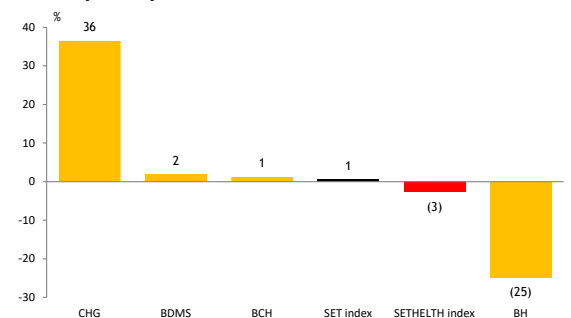
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Thai healthcare (SETHLTH) P/E bands



Source: Bloomberg

Stock-price performances



Source: SET

Glossary

SSO	Social Security Office scheme
NHSO	National Health Security scheme
OPD	Out-Patient department
IPD	In-Patient department

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							18A	19E	18A	19E	18A	19E
Bangkok Dusit	BDMS TB	13,284	Buy	25.25	28.00	11	39.2	40.0	5.5	4.8	1.3	1.2
Bumrungrad	BH TB	3,402	Hold	141.00	140.00	(1)	32.9	26.3	7.4	5.1	1.5	1.9
Bangkok Chain	BCH TB	1,395	Buy	16.90	19.00	12	38.2	35.1	7.3	6.7	1.4	1.5
Chularat Hosp.	CHG TB	954	Buy	2.62	3.10	18	33.3	39.3	5.9	7.7	2.6	1.5

1. SSO to announce higher payment budget

Thailand's medical council has approved the new budget for SSO payment rate to hospitals and has proposed it to the SSO committee for approval. We expect SSO to approve the new budget by end of this year. The proposed budget is up by 13% from THB2,707 to THB3,064/head/year, effective Jan 2020. The 13% hike is much higher than the average 4% CAGR in 2005-18. The structure of the proposed budget is as follows:

- 1) Fixed payment: the budget should increase to THB1,540/head/year from THB1,500
- 2) Quality of treatments: the budget should increase to THB160/head/year from THB120. The first THB80 will be calculated based on the number of complaints (fewer is better) for each hospital and the remaining THB80 depends on the discharge rate (treatment success rate) for each hospital.
- 3) OPD cases: (26 types of chronic diseases): the budget should increase to THB512/head/year from THB447.
- 4) IPD cases: the budget should increase to THB752/head/year from THB640. However, the reimbursement rate should remain at THB12,800/AdjRW. Note that AdjRW stands for Adjusted Relative Weight, which is a measure of the average cost of caring for individual patients.

Under our coverage, SSO patient revenue contributed 32% to CHG and 33% to BCH. Thus, both hospitals will benefit significantly from the new budget in 2020. During 2018-2019, most hospitals in the SSO scheme were required to book a provision expense as the SSO had a limited budget. The higher budget should result in fewer provisioning expenses.

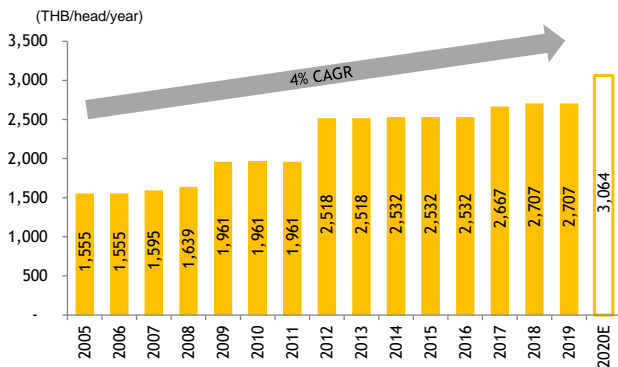
We estimate that the new payment rates should lift SSO revenue for BCH and CHG by 2-3%. Higher SSO revenue should percolate directly to the bottom line, as operating expenses are unchanged. Thus, we forecast the new payment rates to lift core FY20E EPS by 14-15% for BCH and CHG. Note that we have not factored these in our model yet, pending an official announcement.

Fig 1: Potential new SSO rates in 2020E

SSO (THB/head/year)	2016	July 2017	% Increase	2019	2020E	% Increase
Fixed payment	1,460	1,500	3%	1,500	1640	9%
OPD (26 Chronic diseases)	432	447	3%	447	512	15%
IPD (RW>2)	560	640	14%	640	752	18%
Quality of hospitals	80	120	50%	120	160	33%
	2,532	2,707	7%	2,707	3,064	13%

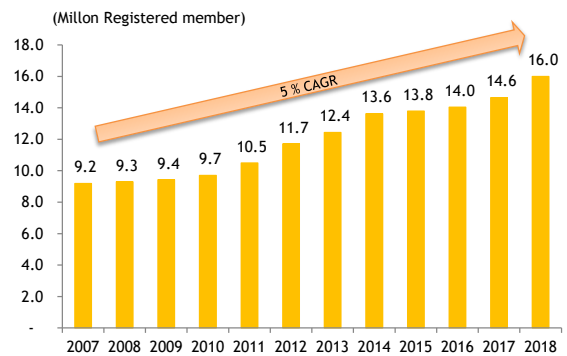
Source: BCH Company data, MKE-ISR

Fig 2: The new budget is expected to go up 13%, higher than the average 4% CAGR in the last 15 years



Source: BCH Company data

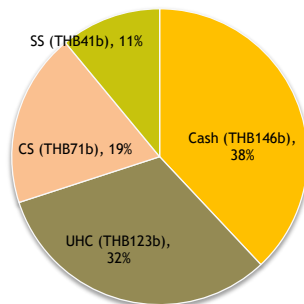
Fig 3: Number of registered SSO members in Thailand



Source: SSO

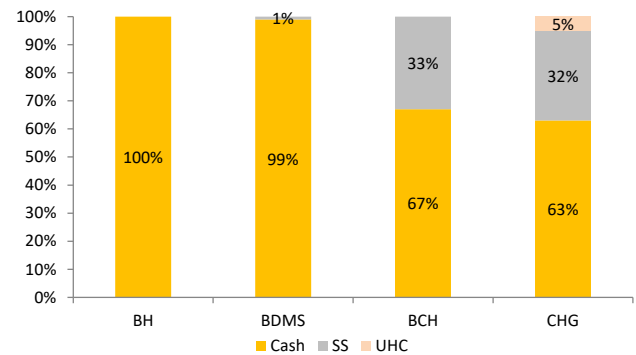
Fig 4: Healthcare segment in Thailand

Total Expenditure for 2016: THB381b



Source: BDMS presentation, NHSO, NESDB, SSO

Fig 5: Revenue breakdown for healthcare stocks under our coverage



Source: Company Data, MKE-ISR

Fig 6: Comparison of SSO operations between BCH and CHG

	BCH	CHG
Member quota	1,207,500	437,500
Registered members as of 9M19	873,000	434,113
SSO revenue in 2018 (THB,m)	2,685	1,409
SSO revenue contribution	33%	32%
Revenue per head in 2018 (THB/head/year)	3,418	3,341

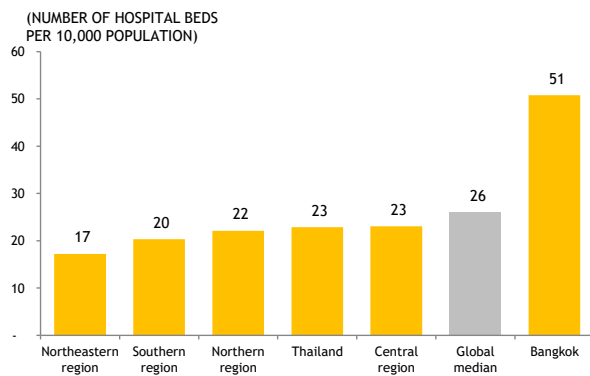
Source: Company Data, MKE-ISR

2. High competition in Bangkok

Hospital bed supply is low in Thailand, at only 23 beds/10,000 people vs the global median of 26 and 46 beds on average in developed countries. However, we see high competition in Bangkok, which has 51 beds/10,000 people as of 2018. There will be new supply in Bangkok in 2020 such as TPP Healthcare International (550 beds), Wimut international (250 beds), RSU International (345 beds), Synphaet Bangna (264 beds) and expansion of Praram 9 Hospital (143 beds).

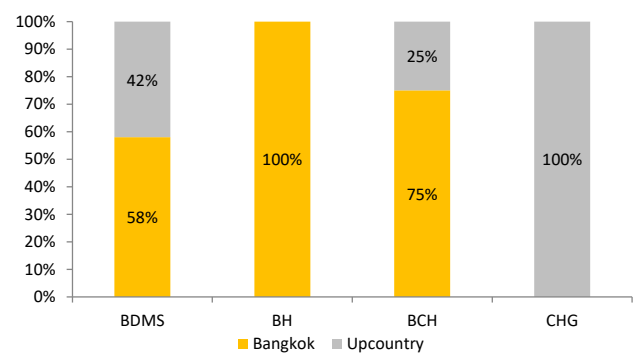
We have started to see hospitals in Bangkok offering discounts since 2019 and the trend should continue in 2020. Thus, we believe BH, which has only one standalone hospital in Bangkok, to be most pressured by high competition. BDMS and BCH have diversified their source of revenue to upcountry hospitals, which contribute c.42% and 25% of total revenue, respectively. Meanwhile, all of CHG's hospitals are located outside Bangkok, and so are less impacted by competition.

Fig 7: Supply of hospital beds breakdown by region as of 2018



Source: NESDB

Fig 8: Revenue breakdown between Bangkok and upcountry hospitals



Source: Company Data for BDMS, BH and CHG, MKE-ISR estimate for BCH

Fig 9: Notable Hospital expansion summary

Project owner	Existing beds	Expansion project	Capacity expansion	Expected opening	% increase
BDMS	8,091	Bangkok International	175	2019	5%
		Jomtien Hospital	233	2020	
			408		
BCH	2,245	Kasemrad Sa Kaeo	90	2020	22%
		Kasemrad Prachinburi	115	2021	
		Kasemrad International Vientiane	254	2021	
CHG	749		459		8%
		New building at CHG3	52	2019	
		Cancer Center	10	2020	
Vibhavadi Medical Center (VIBHA TB)	2,275		62		36%
		Lanna Hospital building 3	220	2021	
		Ramkamhaeng Chiangmai	300	2022	
		Hariphunchai memorial	150	2021	
		Bangpo expansion	50	N/A	
Thonburi Healthcare Group (THG TB)	916	Vibharam Pattanakarn 2	100	2019	28%
			820		
			252		
Principal Capital (PRINC TB)	599	Thonburi Thungsong	200	2019	20%
		Thonburi 2 Expansion	52	2020	
			120		
Pramram 9 Hospital (PR9 TB)	170	Pisanuvej Uttaradit Hospital	60	2019	84%
		Prince Hospital Uthai Thani	60	2019	
			143		
Wattanaapat Hospital (WPH TB)	120	New building	59	2019	73%
		Renovation existing building	84	2022	
			88		
Synphaet	387	Wanttanapat Hospital Ao Nang	59	2019	178%
		Wanttanapat Hospital Samui	29	2020	
			688		
Rajthanee Hospital (RJH TB)	353	Medical complex	213	N/A	34%
		Synphaet Bangna	264	2020	
		Tunyawej Lumlukka	211	2020	
Ekachai Medical Care (EKH)	80		387		178%
Thai Nakarin Hospital (TNH TB)	190	New hospital	120	2021	34%
Mahachai Hospital (M-CHAI, TB)	681	New building	60	2019	75%
Pruksa Holding (PSH TB)	-	New building	110	2022	58%
Rangsit University	-	TPP Healthcare International	550	2020	81%
Saha-Union and Sahapat	-	Wimut international	250	2020	N/A
Intrarat Hospital	-	RSU International	345	2020	N/A
Central General	-	KPN Healthcare	152	N/A	N/A
	-	Intrarat	152	N/A	N/A
	-	Hathairaj	126	N/A	N/A
Total	16,856		4,905		29%

Source: MKE-ISR, Company data, Public information

3. Margin to improve in 2020

In 2019E, EBITDA margin of hospitals under our coverage should stay flat or drop. We expect to see margin improvement for BDMS, BCH and CHG in 2020E. However, BH's EBITDA margin should stay relatively flat. The details are as follows:

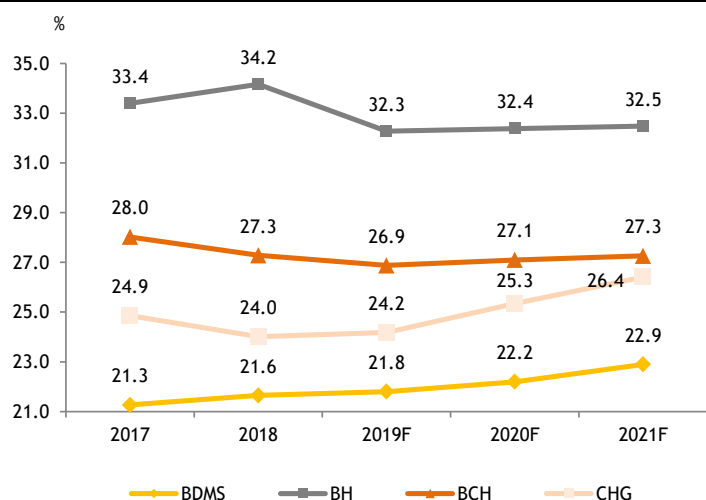
BDMS: margin has been dragged by two new hospitals, Mövenpick BDMS Wellness Resort which opened in June and the International Hospital at Bangkok Hospital HQ which opened in July. We expect both hospitals to improve in 2020. Further, BDMS will have only one greenfield project, Jomtien Hospital, to open in 2020, while four loss-making hospitals - Samitivej Chinatown, Sri Rayong, Bangkok Phetchaburi, and Bangkok Surat - are expected to turn profitable in 2020. Overall, we expect EBITDA margin to improve from 21.8% in 2019E to 22.9% in 2021E.

BCH: margin should improve due to i) higher SSO payment rates, ii) turnaround of KH RAM, which contributed THB50m losses in 9M19 and iii) opening of IVF Center at WMC, which commands higher margins. However, margin will be partially offset by the opening of its greenfield hospital, KIH Aranyaprathet, in 2Q20. Overall, we expect EBITDA margin to improve from 26.9% in 2019E to 27.3% in 2021E.

CHG: margin should significantly improve due to i) higher SSO payment rates, ii) turnaround of two new hospitals, CHG304 and RPC, which contributed total losses of THB109m losses in 2019E, and iii) 2.5% increase in reimbursement rate of the NHSO scheme. Overall, we expect EBITDA margin to improve from 24.2% in 2019E to 26.4% in 2021E.

BH: EBITDA margin should stay flat at 32% in 2019-21E due to medical fee discounts in selected markets, which tends to lead to lower revenue per head. Further, aside from high competition in Bangkok, the THB appreciation makes BH less appealing compared to hospitals in other countries, which focus on medical tourism such as Singapore, Malaysia and India.

Fig 10: EBITDA margin to improve for all stocks, except BH



Source: MKE-ISR

Note: excluding potential hike in SSO budget for BCH and CHG

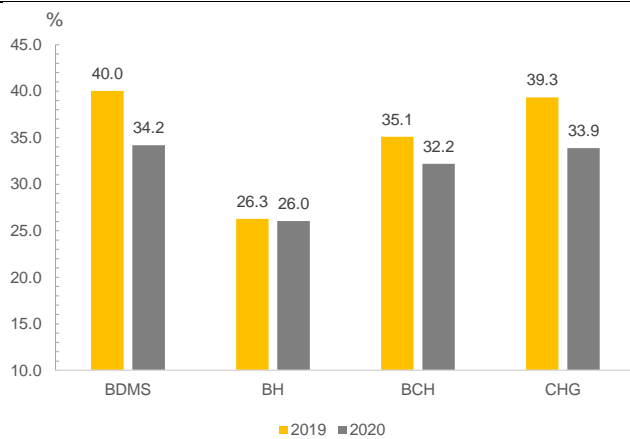
4. Attractive valuation

Healthcare stocks under our coverage are trading at 26-34x, compared to the healthcare sector 5-year average of 35x and regional peers' average of 32x. We believe this should be an opportunity to accumulate stocks to capture strong earnings growth in 2020.

The sector will benefit from i) an aging society with the share of the total population aged over 65 years expected to increase from 16% currently to 25% by 2030, ii) healthcare insurance in Thailand is trending up, based on the 12% CAGR in the total value of premiums paid over 2011-18 and iii) medical tourism following high-quality healthcare services with reasonable prices.

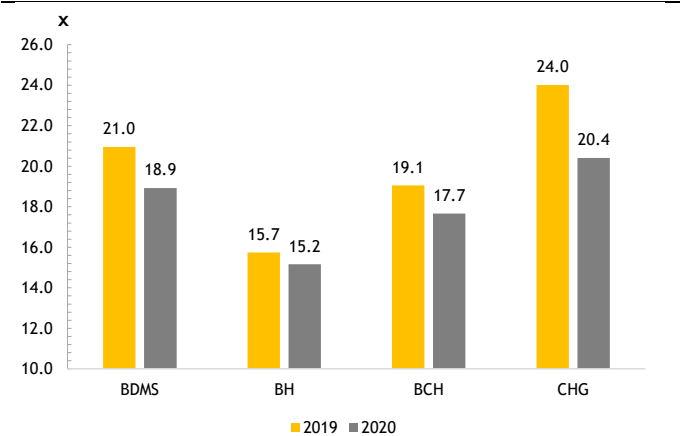
We have a BUY on BDMS, BCH and CHG, while we have a HOLD on BH. CHG is our top pick due to i) its superior EPS CAGR of 16% over 2019-22E, ii) the highest ROE of 22% in 2020E and iii) the best PEG ratio of 2.5x.

Fig 11: P/E valuations



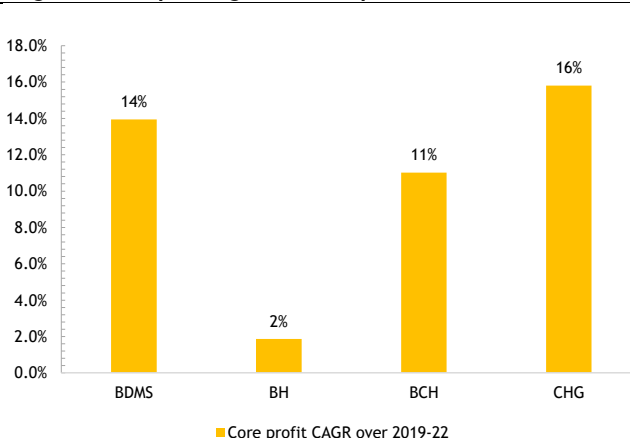
Source: MKE-ISR

Fig 12: EV/EBITDA



Source: MKE-ISR

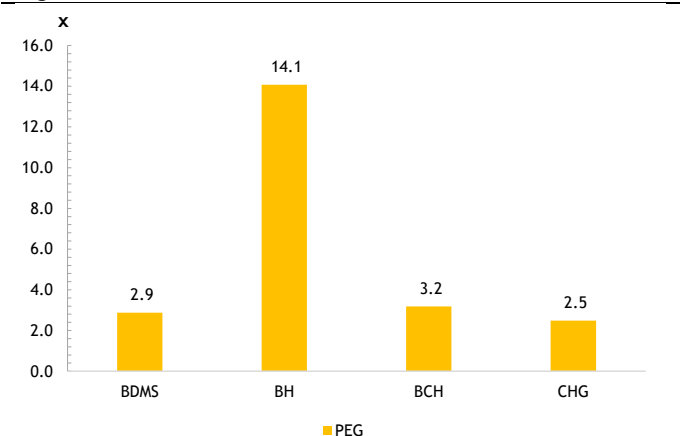
Fig 13: Core-profit growth comparisons



Source: MKE-ISR

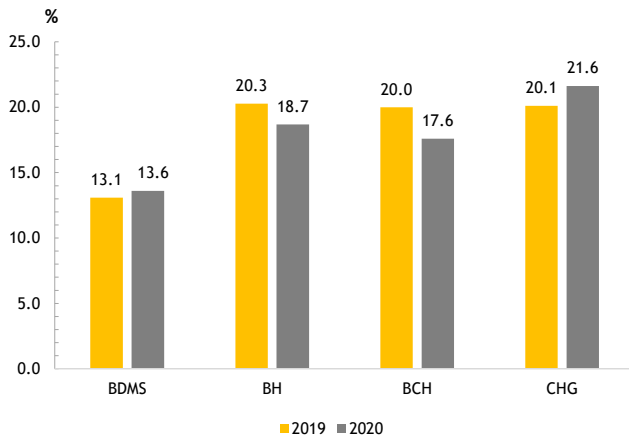
Note: excluding potential hike in SSO budget for BCH and CHG

Fig 14: PEG ratios



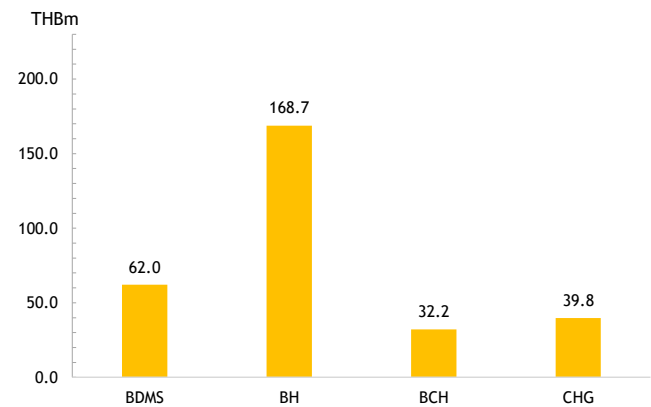
Source: MKE-ISR

Fig 15: ROE comparisons



Source: MKE-ISR

Fig 16: EV/bed



Source: MKE-ISR

Fig 17: Peer comparisons

															EPS	
		Mkt cap	Rating	Price	TP	Upside	P/E (x)		P/BV (x)		EV/EBITDA (X)		ROE (x)	Yield(%)	growth(%)	
Ticker	Name	USDb					2019E	2020E	2019E	2020E	2019E	2020E	2019E	2019E	2019E	2020E
Thai Healthcare																
BDMS TB	BANGKOK DUSIT MED SERVICE	13.3	BUY	25.25	28.00	11%	40.0	34.2	4.8	4.5	21.0	18.9	13.1	1.2	-0.4	17.1
BH TB	BUMRUNGRAD HOSPITAL PCL	3.4	HOLD	141.00	140.00	-1%	26.3	26.0	5.1	4.6	15.7	15.2	20.3	1.9	-5.9	0.8
BCH TB	BANGKOK CHAIN HOSPITAL PCL	1.4	BUY	16.90	19.00	12%	35.1	32.2	6.7	6.0	19.1	17.7	20.0	1.5	10.2	9.0
CHG TB	CHULARAT HOSPITAL PCL	1.0	BUY	2.62	3.10	18%	39.3	33.9	7.7	7.0	24.0	20.4	20.1	1.5	15.6	16.1
PR9 TB	PRARAM 9 HOSPITAL PCL	0.2	N/A	8.10	N/A	N/A	17.7	18.1	1.6	1.6	8.9	8.7	7.9	1.8	86.0	-2.2
RJH TB	RAJTHANEE HOSPITAL PCL	0.3	N/A	25.75	N/A	N/A	22.3	21.8	5.4	5.1	15.0	13.9	27.4	3.8	36.4	2.2
THG TB	THONBURI HEALTHCARE GROUP PC	0.8	N/A	26.75	N/A	N/A	68.6	41.8	2.7	2.6	N/A	N/A	4.2	1.1	10.2	64.1
VIBHA TB	VIBHAVADI MEDICAL CENTER PCL	0.8	N/A	1.76	N/A	N/A	17.6	17.6	N/A	N/A	19.5	17.2	10.0	0.0	104.5	0.0
EKH TB	EKACHAI MEDICAL CARE PCL	0.1	N/A	6.40	N/A	N/A	24.1	21.8	4.2	3.9	13.8	12.1	17.0	3.2	36.6	10.5
Average							32.3	27.5	4.8	4.4	17.1	15.5	15.6	1.8	32.6	13.1
Regional Healthcare																
RHC AU	RAMSAY HEALTH CARE LTD	10.2	N/A	73.74	N/A	N/A	25.6	23.7	5.3	4.8	12.4	10.3	21.1	2.1	-0.4	7.7
IHH SP	IHH HEALTHCARE BHD	11.7	HOLD	1.81	1.90	5%	53.2	42.5	0.7	0.6	18.3	16.3	3.9	1.6	N/A	25.0
RYM NZ	RYMAN HEALTHCARE LTD	5.3	N/A	16.00	N/A	N/A	30.9	27.2	4.4	3.2	31.9	28.4	11.4	1.6	N/A	13.5
APHS IN	APOLLO HOSPITALS ENTERPRISE	2.7	N/A	1396.4	N/A	N/A	52.9	38.4	5.4	5.0	16.9	13.9	10.4	0.5	56.6	37.9
KPJ MK	KPJ HEALTHCARE BERHAD	1.0	BUY	0.93	1.08	16%	22.7	21.1	2.1	2.0	10.6	10.0	9.3	2.0	13.3	7.3
RFMD SP	RAFFLES MEDICAL GROUP LTD	1.3	HOLD	0.97	1.07	10%	30.3	29.4	2.1	2.1	18.8	17.7	7.4	2.4	-13.2	3.1
MIKA IJ	MITRA KELUARGA KARYASEHAT TB	2.7	N/A	2670.0	N/A	N/A	54.0	48.5	8.7	7.9	35.1	31.3	16.9	0.8	16.3	11.3
300015 CH	AIER EYE HOSPITAL GROUP CO-A	17.4	N/A	39.44	N/A	N/A	88.0	67.3	17.5	14.0	49.7	38.0	20.3	0.6	2.4	30.8
HMI SP	HEALTH MANAGEMENT INTL LTD	0.4	HOLD	0.73	0.73	1%	28.8	27.0	1.6	1.5	16.7	15.5	19.6	2.9	30.4	6.5
Average							42.9	36.1	5.3	4.6	23.4	20.2	13.4	1.6	15.1	15.9
Average - Bloomberg consensus							37.6	31.8	5.1	4.5	20.4	18.0	14.5	1.7	24.9	14.5

Source: MKE-ISR, Bloomberg

Fig 18: Bear-to-bull case for EBITDA margin

	Bear case		Base case		Bull case	
	EBITDA margin	FV-DCF	EBITDA margin	FV-DCF	EBITDA margin	FV-DCF
BDMS	21.2%	26.6	22.2%	28.0	23.2%	29.4
BH	31.4%	136.0	32.4%	140.0	33.4%	144.0
BCH	26.1%	18.1	27.1%	19.0	28.1%	19.9
CHG	24.3%	2.9	25.3%	3.1	26.3%	3.3

Source: MKE-ISR

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