

Preview 4Q15: Resilience supports further rally

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Fundamental Investment

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The Thai healthcare sector index surged 30% in 2015 vs. a 14% dip for the SET Index and we expect the rally to continue: this sector is a safe haven for investors, with solid earnings amidst a cautious economic view for 2016. Our top pick is BDMS, backed by strong earnings growth and growth opportunities in the AEC.

4Q15F preview. Of its sector, we expect BH to report the strongest earnings growth both YoY and QoQ at Bt873mn, up 30% YoY and 5% QoQ, backed by improvement from its low base last year and an exceptionally weak 3Q15 on concerns of MERS and the bomb at Erawan Shrine. BDMS' core earnings are expected to be flat YoY, with growth at existing hospitals offset by losses from newly-opened hospitals, with an 11% decline QoQ on seasonality. We expect BCH's core earnings to drop YoY due to losses at new hospitals (open in mid-2015) with a seasonal fall QoQ.

Accelerating earnings growth in 2016. The healthcare sector is poised to deliver 16% YoY core earnings growth this year, accelerating from 10% YoY in 2015. **BCH:** We expect it to report the strongest core earnings growth at 25% YoY in 2016 after three years of contractions, largely from a steady easing in losses at World Medical Center (WMC), its high-end hospital. **BDMS:** We expect earnings to jump 17% YoY in 2016 (from the limp 2% YoY in 2015) backed by growing revenue and wider EBITDA margin supported by strong operations at its 28 existing hospitals, operational ramp-up at 14 newly-opened hospitals (less than two years in operation) and less drag from new investment - it plans to open only one new hospital in 2016. **BH:** After the outstanding 31% YoY growth in 2015 due to improving operations (and off the low base from the political tension), we expect core earnings growth to return to normal at 13% YoY.

AEC is a growth opportunity for BDMS. BDMS has solid growth opportunities from the startup of the ASEAN Economic Community (AEC) with rising demand for more advanced healthcare in the region, particularly from CLMV countries. It already operates two hospitals in Cambodia and has hospitals in Thailand near borders: Bangkok Hospital Udon (in the northeast, adjoining Laos) and Bangkok Hospital Chiang Mai (in the north, near Myanmar). In 9M15, revenue from patients from Myanmar was only 1.9% of BDMS' total revenue vs. 9% for BH – indicating ample room to grow.

BDMS and BH: TPs increase as we roll over to end-2016. We roll over TPs for BDMS and BH to end-2016 from mid-2016. This raises BDMS' TP to Bt25/share (from Bt23/share) and BH's TP to Bt190/share (from Bt175/share). We already moved BCH's TP to end-2016 (Bt10/share).

Maintain positive view for the sector. BDMS is top pick. The Thai healthcare sector index surged 30% in 2015 (+50% for BH, +30% for BDMS and +15% for BCH) vs. a 14% dip for the SET Index. We expect this resilient sector to continue to outperform, however, as it provides a safe haven with solid growth – healthcare is a necessity - despite the cautious view towards the economy in 2016. BDMS is our top pick. Its valuation is not cheap, trading at 2.3x 2016PE-to-earnings growth, higher than the 2.1x regional average, but we see the premium valuation as deserved given its healthy earnings and bright prospects over the long haul, with a large and widespread network that will serve healthcare demand in Thailand and in its neighbors.

Valuation Summary

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					14A	15F	16F	14A	15F	16F	14A	15F	16F	14A	15F	16F	14A	15F	16F	14A	15F	16F
BDMS	Buy	21.50	25.0	17.6	46.9	45.4	38.9	16	3	17	6.8	6.4	5.9	16	15	16	1.1	1.1	1.3	28.4	26.3	23.0
BCH	Buy	9.40	10.0	7.6	44.9	50.5	40.6	(11)	(11)	24	5.0	4.9	4.6	11	10	12	0.7	1.0	1.2	19.0	19.8	17.1
BH	Sell	217.00	190.0	(11.2)	58.9	45.1	39.8	9	31	13	16.7	14.6	12.7	26	29	29	0.9	1.1	1.3	34.1	27.3	24.9
Average					50.2	47.0	39.8	5	8	18	9.5	8.6	7.7	18	18	19	0.9	1.1	1.3	27.1	24.5	21.7

Source: SCBS Investment Research

Figure 1: Earnings preview

Core profit (Bt mn)	4Q14	1Q15	2Q15	3Q15	4Q15F	% YoY	% QoQ	Comment	2014	2015F	2016F	YoY growth	
												2015F	2016F
BCH	144	95	98	144	127	(11.8)	(11.7)	YoY core earnings drop due to losses from new hospitals (opening in mid-2015); QoQ core earnings drop is seasonal.	522	464	577	(11.2)	24.5
BDMS	1,693	2,289	1,491	1,879	1,677	(1.0)	(10.7)	EBITDA margin is expected to be flat as the improvement at older hospitals is unable to fully offset losses from the newer ones (14 newly-opened hospitals).	7,109	7,336	8,564	3.2	16.7
BH	674	962	836	831	873	29.6	5.1	Better QoQ core earnings are due to an exceptionally weak 3Q15 from concerns on MERS and bomb at Erawan Shrine.	2,684	3,503	3,969	30.5	13.3
Sector	2,511	3,346	2,426	2,854	2,678	6.6	(6.2)		10,314	11,303	13,111	9.6	16.0

Source: SCBS Investment Research

Figure 2: Regional peer valuation

Ticker	Country	PE (x)			EPS Growth (%)			PBV (x)			Div. Yield (%)			ROE (%)			EV/EBITDA (x)		
		15F	16F	17F	15F	16F	17F	15F	16F	17F	15F	16F	17F	15F	16F	17F	15F	16F	17F
BCH TB Equity*	Thailand	50.5	40.6	33.1	-11.1	24.5	22.5	4.9	4.6	4.3	1.0	1.2	1.5	9.8	11.6	13.3	19.8	17.1	14.6
BDMS TB Equity*	Thailand	45.6	39.1	33.0	3.2	16.7	18.5	6.5	6.0	5.5	1.1	1.3	1.5	14.6	15.9	17.3	26.4	23.1	20.2
BH TB Equity*	Thailand	45.1	39.8	35.3	30.5	13.3	12.8	12.2	10.7	9.2	1.1	1.3	1.4	29.0	28.6	28.1	27.3	24.9	22.1
CHG TB Equity	Thailand	54.0	42.9	35.5	13.6	26.0	20.6	9.9	9.0	8.2	0.9	1.1	1.4	18.6	21.2	23.0	35.3	28.4	23.6
KPJ MK Equity	Malaysia	30.5	27.9	25.0	1.0	9.2	11.6	3.2	3.0	2.9	1.6	1.8	1.9	11.1	11.3	11.9	15.6	14.0	12.6
IHH MK Equity	Malaysia	56.3	46.0	37.7	24.5	22.6	22.0	2.6	2.5	2.4	0.5	0.6	0.7	4.5	5.6	6.4	26.7	23.0	20.1
RFMD SP Equity	Singapore	33.8	29.9	26.0	1.7	13.0	15.1	4.0	3.7	3.3	1.3	1.4	1.6	12.3	12.9	13.7	24.8	21.2	18.1
APHS IN Equity	India	50.5	41.5	32.3	10.7	21.7	28.6	5.7	5.2	4.6	0.5	0.5	0.7	11.7	13.5	16.4	25.1	21.1	17.6
RHC AU Equity	Australia	28.7	25.1	22.7	20.1	14.5	10.5	6.7	6.0	5.3	1.8	2.1	2.3	23.4	24.0	23.6	13.1	11.7	10.9
RYM NZ Equity	New Zealand	28.0	24.2	20.9	0.2	15.7	16.0	3.5	3.1	2.6	1.8	2.1	2.4	14.3	14.4	13.7	19.2	18.2	15.1
Average		42.3	35.7	30.1	9.4	17.7	17.8	5.9	5.4	4.8	1.2	1.3	1.5	14.9	15.9	16.7	23.3	20.3	17.5

Source: Bloomberg

*SCBS estimates

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★★★★

AAV, ACAP, AGE, AHC, AKP, AMATA, ANAN, AOT, APCS, ARIP, ASIMAR, ASK, ASP, BANPU, BAY, BBL, BDMS, BECL, BKI, BLA, BMCL, BOL, BROOK, BWG, CENTEL, CFRESH, CHO, CIMBT, CM, CNT, COL, CPF, CPI, CSL, DCC, DELTA, DEMCO, ECF, EE, ERW, GBX, GC, GFPT, GLOBAL, GUNKUL, HEMRAJ, HOTPOT, HYDRO, ICC, ICHI, INET, IRC, KSL, KTC, LANNA, LH, LOXLEY, LRH, MACO, MBK, MC, MEGA, MFEC, NBC, NCH, NINE, NSI, NTV, OCC, OGC, OISHI, OTO, PAP, PDI, PE, PG, PJW, PM, PPP, PR, PRANDA, PREB, PT, PTG, Q-CON, QH, RS, S & J, SABINA, SAMCO, SCG, SEAFSCO, SFP, SIAM, SINGER, SIS, SITHAI, SMK, SMPC, SMT, SNP, SPI, SSF, SSI, SSSC, SST, STA, STEC, SVI, SWC, SYMC, SYNTec, TASCO, TBSP, TCAP, TF, TGCI, THAI, THANA, THANI, THIP, THRE, THREL, TICON, TIP, TIPCO, TK, TKS, TMI, TMILL, TMT, TNDT, TNITY, TNL, TOG, TPC, TPCORP, TRC, TRU, TRUE, TSC, TSTE, TSTH, TTA, TTCL, TTW, TU, TVD, TVO, TWPC, UAC, UT, UV, VNT, WAVE, WINNER, YUASA, ZMICO

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2S, AEC, AEONTS, AF, AH, AIRA, AIT, AJ, AKR, AMANAH, AMARIN, AP, APCO, AQUA, AS, ASIA, AUCTION, AYUD, BA, BEAUTY, BEC, BFIT, BH, BIG, BJC, BJCHI, BKD, BTNC, CBG, CGD, CHG, CHOW, CI, CITY, CKP, CNS, CPALL, CPL, CSC, CSP, CSS, CTW, DNA, EARTH, EASON, ECL, EFORL, ESSO, FE, FIRE, FOCUS, FORTH, FPI, FSMART, FSS, FVC, GCAP, GENCO, GL, GLAND, GLOW, GOLD, GYT, HTC, HTECH, IEC, IFEC, IFS, IHL, IRCP, ITD, JSP, JTS, JUBILE, KASET, KBS, KCAR, KGI, KKC, KTIS, KWC, KYE, L&E, LALIN, LHK, LIT, TT, LST, M, MAJOR, MAKRO, MATCH, MATI, MBKET, M-CHAI, MFC, MILL, MJD, MK, MODERN, MOONG, MPG, MSC, MTEI, MTL, NCH, NOK, NUSA, NWR, NYT, OCEAN, PACE, PATO, PB, PCA, PCSGH, PDG, PF, PICO, PL, PLANB, PLAT, PPM, PRG, PRIN, PSTC, PTL, PYLON, QLT, RCI, RCL, RICHY, RML, RPC, S, SALEE, SAPPE, SAWAD, SCCC, SCN, SCP, SEAOL, SIRI, SKR, SMG, SOLAR, SORKON, SPA, SPC, SPCG, SPPT, SPVI, SRICHA, SSC, STANLY, STPI, SUC, SUSCO, SUTHA, SYNEX, TAE, TAKUNI, TCC, TCCC, TCJ, TEAM, TFD, TFI, TIC, TIW, TLUXE, TMC, TMD, TOPP, TPCH, TPIPL, TRT, TSE, TSR, UMI, UP, UPF, UPOIC, UREKA, UWC, VIBHA, VIH, VPO, WHA, WIN, XO

Corporate Governance Report

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BCP, CPN, GYT, PE, PM, PPP, PT, PTT, PTTGC, SAT, SCC, THANI, TOP

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ASP, BAFS, BANPU, BAY, BBL, BKI, BLA, CIMBT, CNS, CSL, DCC, DRT, DTC, EASTW, ECL, EGCO, ERW, FSS, GCAP, HANA, HTC, INTUCH, IRPC, IVL, KBANK, KCE, KGI, KKP, KTB, LANNA, LHBANK, MTI, NKI, PSL, PTG, PTTEP, SABINA, SCB, SNC, SNP, SSF, SSSC, TCAP, THCOM, TISCO, TMB, TMD, TNITY, TOG

Level 3A: Established by Commitment and Policy (มีมาตรการป้องกัน ตามคำมั่นและนโยบาย)

AAV, AHC, AIT, AKR, ARROW, ASK, BA, BDMS, BEC, BECL, BJCHI, BUI, CGH, CHG, CHOW, CIG, CITY, CK, CKP, COLOR, CWT, EARTH, EASON, EPG, F&D, FANCY, FIRE, FMT, FORTH, GENCO, GL, GOLD, GPSC, GRAMMY, HYDRO, IRPC, IT, JCT, KCM, KWC, LH, LIT, LOXLEY, MACO, MANRIN, MATI, MODERN, MSC, NOBLE, NOK, NPK, NUSA, OISHI, OTO, PAF, PAP, PATO, PF, PJW, PLANB, PLE, POLAR, PRG, PTL, Q-CON, QTC, RCI, S11, SALEE, SAM, SAMART, SAMTEL, SAPPE, SC, SCP, SFP, SIM, SLP, SMT, SPA, SPORT, SSC, SST, STEC, STPI, SUC, SUTHA, T, TAE, TBSP, TCC, TFD, TGCI, TGPRO, THANA, THIP, TIW, TK, TMW, TNDT, TOPP, TPC, TPCH, TPIPL, TSR, TT, TYCN, UAC, UBIS, UEC, UMI, UP, UPF, UT, UV, VPO, WAVE, WINNER, YUASA

Level 3A: Established by declaration of intent (มีมาตรการป้องกัน ตามคำประกาศเจตนารมณ์)

ABC, ACAP, ADVANC, AGE, AH, AMANAH, ANAN, AP, APCS, APURE, AS, ASIA, ASIAN, ASIMAR, BIGC, BROOK, BTS, BWG, CEN, CENTEL, CFRESH, CHARAN, CHO, CHOTI, CM, CNT, COL, CPF, CPI, CPL, DELTA, DEMCO, DIMET, DNA, DTAC, EA, ECF, EE, EVER, FPI, GBX, GC, GFPT, GLOW, HMPRO, HOTPOT, ICC, ICHI, IFEC, INOX, INSURE, IRC, JAS, JTS, JUBILE, KC, KTC, KYE, LHK, LPN, LRH, MAKRO, MC, MCOT, MFC, MFEC, MINT, MJD, MONO, MOONG, NBC, NDR, NINE, NMG, NSI, NTV, OGC, PACE, PCSGH, PDI, PG, PHOL, PLAT, PPS, PR, PRANDA, PREB, PS, QLT, RATCH, RML, ROBINS, ROJNA, RWI, SAMCO, SCCC, SCG, SEAOL, SE-ED, SENA, SINGER, SITHAI, SMK, SMPC, SPALI, SPC, SPCG, SPI, SRICHA, SSI, STANLY, SUPER, SVI, SYMC, SYNEX, SYNTec, TASCO, TCMC, TFI, THAI, THRE, THREL, TICON, TKT, TLUXE, TMILL, TMT, TNL, TPCORP, TSTE, TSTH, TTCL, TU, TVI, UOBKH, UREKA, VGI, VNT, WACOAL, WHA, ZMICO

Level 2: Declared (ประกาศเจตนารมณ์)

2S, ABICO, AF, AKP, AMARIN, AMATA, AOT, APCO, AYUD, BEAUTY, BFIT, BH, BKD, BLAND, BTNC, CCP, CI, CSR, CSS, EFORL, EPCO, FE, FNS, FVC, GEL, GLOBAL, HEMRAJ, IEC, IFS, INET, JUTHA, KASET, KCAR, KKC, KSL, L&E, LALIN, LTX, M, MALEE, MBK, MBKET, MEGA, MK, MPG, MTL, NCH, NCL, NPP, OCC, OCEAN, PB, PCA, PRINC, QH, ROCK, RPC, S & J, SGP, SIAM, SIS, SKR, SMG, SMIT, SORKON, SUSCO, TAKUNI, TEAM, TF, TIC, TIP, TIPCO, TMC, TMI, TPP, TRT, TRU, TRUE, TSC, TSI, TTW, TVD, TVO, UKEM, UNIQ, UWC, VNG, WIJK, WIN, XO

Level 1: Committed (ขยายผลผู้ที่เกี่ยวข้อง)

ACD, AEONTS, AFC, AIRA, AJ, ALUCON, AMC, AQUA, ARIP, AUCTION, BAT-3K, BIG, BJC, BMCL, BOL, BRR, BSBM, CBG, CCET, CCN, CGD, CMR, CPH, CSC, CSP, CTW, DCON, DRACO, DSGT, DTCI, E, EMC, ESSO, FOCUS, FSMART, GIFT, GLAND, GRAND, GUNKUL, HFT, HTECH, IHL, ILINK, ITD, JSP, KDH, KTIS, KTP, LEE, LST, MAJOR, MATCH, MAX, M-CHAI, MDX, MIDA, ML, MPIC, NC, NEP, NNCL, NWR, OHTL, PICO, PK, PL, PPM, PRAKIT, PRECHA, PRIN, PSTC, PYLON, RAM, RICH, RS, SANKO, SAUCE, SAWAD, SAWANG, SCN, SEAFSCO, SF, SHANG, SIRI, SMART, SMM, SOLAR, SPACK, SPC, SPPT, SPVI, STA, STAR, SVH, SVOA, SWC, TAPAC, TC, TCCC, TCJ, TCOAT, TH, TKS, TNH, TNPC, TPA, TPAC, TPOLY, TRC, TRUBB, TSE, TTA, TTI, TTL, TTTM, TWP, TWZ, U, UMS, UPA, UPOIC, UTP, UVAN, VARO, VI, VIBHA, VIH, VTE, WG

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Reference

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- Level 3A: Established by declaration of intent, Level 3B: Established by Commitment and Policy
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