

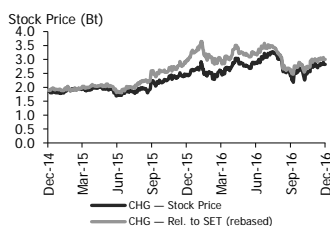
BUY

Stock Data

| | |
|-----------------------------|-------|
| Last close (Dec 6) (Bt) | 2.80 |
| 12-m target price (Bt) | 3.50 |
| Upside (Downside) to TP (%) | 25.00 |
| Mkt cap (Btbn) | 30.80 |
| Mkt cap (US\$m) | 865 |

| | |
|----------------------------|-----------|
| Bloomberg code | CHG TB |
| Reuters code | CHG.BK |
| Risk rating | L |
| Mkt cap (%) SET | 0.21 |
| Sector % SET | 5.11 |
| Shares issued (mn) | 11,000 |
| Par value (Bt) | 0.10 |
| 12-m high / low (Bt) | 3.3 / 2.1 |
| Avg. daily 6m (US\$m) | 4.49 |
| Foreign limit / actual (%) | 49 / 7 |
| Free float (%) | 39.5 |
| Dividend policy (%) | ≥ 50 |

Price Performance



Source: SET, SCBS Investment Research

Share performance

| | 1M | 3M | 12M |
|-----------------|-------|------|-------|
| Absolute | 0.0 | 15.7 | 13.8 |
| Relative to SET | (0.9) | 13.5 | (1.9) |

Source: SET, SCBS Investment Research

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Obstacles clearing, growth will get back on track

CHG has fallen by 15% from July's peak and has underperformed direct peer BCH a sharp 36% YTD, pressured by earnings downgrades after expansion pressured margin. However, that expansion is completed and operations are ramping up. We believe the laggard price performance accompanied by high core earnings growth at 22% CAGR in 2016-18 creates an investment opportunity in CHG. We initiate CHG as BUY with end-2017 DCF TP of Bt3.5/share and place it as our lead pick in the healthcare service sector.

Cash service: available capacity to serve rising demand. Volume growth is a key driver for CHG's cash service revenue. In 9M16, CHG's cash patient volume jumped 21% YoY for OPD and 31% YoY for IPD services. We expect growth to continue high, driven by: 1) rising healthcare demand in Samut Prakarn, its key location, from growing urbanization and business but low supply: the number of hospital beds per 1,000 population is 2.7, far lower than 5.6 for Bangkok and some nearby areas, 2) an improving economy that will restart healthcare spending in the middle-to-lower segment and 3) a 30% increase in bed capacity after the 3Q16 completion of expansion at three flagship hospitals. We expect CHG's cash service revenue to grow 25% CAGR in 2016-18 to 62% of total revenue in 2018.

SC service: increasing demand, declining supply. Since 2006, the number of insured persons under the social security scheme (SC) has jumped from 8.9mn to 14mn as of October 2016 but the number of hospitals serving these patients has fallen 6% as some have exited the scheme. This trend is a positive to CHG. We expect CHG's SC revenue to grow from Bt1.3bn in 2016 to Bt1.5bn in 2018 or 7% CAGR. Upside lies in a possible hike in SC reimbursement since this has been frozen since 2012.

Future investment not a burden. The market is worried that CHG's upcoming investments will pressure EBITDA margin again – as with its recent expansion at its three flagship hospitals. However, we still expect improvement in EBITDA margin in 2016-18 for two reasons. First, future investment will not be large: bed capacity will increase 10% in 2017, 16% in 2018 and 13% in 2019 vs. 32% in 2016 from the flagship expansion, while at the same time, operations at the three flagship hospitals are ramping up, thereby easing margin pressure. Secondly, the country's demand for healthcare is growing and supply in the areas in which CHG is invested is low.

Lead pick in the sector. We initiate CHG as BUY with end-2017 DCF TP of Bt3.5/share and place it as our lead pick in the healthcare sector followed by BCH. We expect CHG's core earnings to grow at a 22% CAGR in 2016-18, beating out BCH's 20%, BH's 13% and BDMS' 12%. This will drive ROE expansion from 17.9% in 2016 to 20.6% in 2018. CHG share price has dropped 15% from its peak in July and YTD has underperformed BCH by a large 36% and the SET by 11% reeling under earnings downgrades by the street. We believe downgrades are ending as the expansion at three flagship hospitals is completed and operations are coming back up. CHG's share is trading at 2.0x PE-to-earnings growth in 2016-18, below the regional average of 2.3x. We see this as an investment opportunity.

Forecasts and valuation

| Year to 31 Dec | Unit | FY2014 | FY2015 | FY2016F | FY2017F | FY2018F |
|------------------|--------|--------|--------|---------|---------|---------|
| Revenue | (Btmn) | 2,672 | 3,155 | 3,684 | 4,230 | 5,020 |
| EBITDA | (Btmn) | 735 | 835 | 941 | 1,138 | 1,377 |
| Core profit | (Btmn) | 481 | 538 | 581 | 700 | 862 |
| Reported profit | (Btmn) | 481 | 538 | 581 | 700 | 862 |
| Core EPS | (Bt) | 0.044 | 0.049 | 0.053 | 0.064 | 0.078 |
| DPS | (Bt) | 0.020 | 0.012 | 0.026 | 0.032 | 0.039 |
| P/E, core | (x) | 64.1 | 57.2 | 53.0 | 44.0 | 35.7 |
| EPS growth, core | (%) | 7.5 | 12.0 | 7.9 | 20.5 | 23.0 |
| P/BV, core | (x) | 10.7 | 10.2 | 8.6 | 7.7 | 6.8 |
| ROE | (%) | 17.7 | 18.7 | 17.9 | 18.8 | 20.6 |
| Dividend yield | (%) | 0.7 | 0.4 | 0.9 | 1.1 | 1.4 |
| EV/EBITDA | (x) | 40.1 | 35.7 | 32.1 | 26.4 | 21.7 |

Source: SCBS Investment Research

Financial statement

Profit and Loss Statement (Btmn)

| FY Dec 31 | 2014 | 2015 | 2016F | 2017F | 2018F |
|-----------------------|-------------|--------------|--------------|--------------|--------------|
| Total revenue | 2,672 | 3,155 | 3,684 | 4,230 | 5,020 |
| Cost of goods sold | (1,756) | (2,082) | (2,493) | (2,848) | (3,381) |
| Gross profit | 916 | 1,073 | 1,191 | 1,382 | 1,638 |
| SG&A | (359) | (426) | (484) | (536) | (617) |
| Other income | 43 | 24 | 24 | 51 | 75 |
| Interest expense | 1 | 1 | 5 | 21 | 20 |
| Pre-tax profit | 598 | 670 | 726 | 875 | 1,077 |
| Corporate tax | 118 | 132 | 145 | 175 | 215 |
| Equity a/c profits | 0 | 0 | 0 | 0 | 0 |
| Minority interests | (0) | 0 | 0 | 0 | 0 |
| Core profit | 481 | 538 | 581 | 700 | 862 |
| Extra-ordinary items | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 481 | 538 | 581 | 700 | 862 |
| EBITDA | 735 | 835 | 941 | 1,138 | 1,377 |
| Core EPS (Bt) | 0.04 | 0.05 | 0.05 | 0.06 | 0.08 |
| Net EPS (Bt) | 0.04 | 0.05 | 0.05 | 0.06 | 0.08 |
| DPS (Bt) | 0.02 | 0.01 | 0.03 | 0.03 | 0.04 |

Profit and Loss Statement (Btmn)

| FY Dec 31 | 3Q15 | 4Q15 | 1Q16 | 2Q16 | 3Q16 |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Total revenue | 805 | 853 | 886 | 876 | 963 |
| Cost of goods sold | (550) | (560) | (582) | (620) | (643) |
| Gross profit | 254 | 293 | 304 | 256 | 320 |
| SG&A | 110 | 122 | 114 | 118 | 122 |
| Other income | 7 | 4 | 4 | 6 | 6 |
| Interest expense | 0 | 0 | 1 | 1 | 3 |
| Pre-tax profit | 151 | 175 | 193 | 143 | 201 |
| Corporate tax | 30 | 33 | 37 | 27 | 40 |
| Equity a/c profits | 0 | 0 | 0 | 0 | 0 |
| Minority interests | (0) | (0) | (0) | (0) | (0) |
| Core profit | 121 | 142 | 157 | 116 | 160 |
| Extra-ordinary items | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 121 | 142 | 157 | 116 | 160 |
| EBITDA | 193 | 221 | 241 | 196 | 259 |
| Core EPS (Bt) | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Net EPS (Bt) | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |

Balance Sheet (Btmn)

| FY Dec 31 | 2014 | 2015 | 2016F | 2017F | 2018F |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Total current assets | 1,522 | 1,353 | 1,649 | 1,929 | 2,125 |
| Total fixed assets | 1,557 | 1,987 | 2,797 | 2,976 | 3,316 |
| Total assets | 3,266 | 3,560 | 4,712 | 5,188 | 5,748 |
| Total loans | 30 | 78 | 670 | 620 | 570 |
| Total current liabilities | 434 | 540 | 1,074 | 1,187 | 1,282 |
| Total long-term liabilities | 0 | 26 | 100 | 50 | 0 |
| Total liabilities | 461 | 591 | 1,198 | 1,261 | 1,306 |
| Paid-up capital | 1,100 | 1,100 | 1,100 | 1,100 | 1,100 |
| Total equity | 2,804 | 2,969 | 3,514 | 3,927 | 4,442 |
| BVPS (Bt) | 0.25 | 0.27 | 0.32 | 0.36 | 0.40 |

Balance Sheet (Btmn)

| FY Dec 31 | 3Q15 | 4Q15 | 1Q16 | 2Q16 | 3Q16 |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Total current assets | 1,513 | 1,353 | 1,418 | 1,389 | 1,421 |
| Total fixed assets | 1,770 | 1,987 | 2,173 | 2,412 | 2,778 |
| Total assets | 3,508 | 3,560 | 3,877 | 4,095 | 4,478 |
| Total loans | 60 | 78 | 123 | 369 | 661 |
| Total current liabilities | 524 | 540 | 645 | 852 | 1,133 |
| Total long-term liabilities | 0 | 26 | 42 | 69 | 91 |
| Total liabilities | 549 | 591 | 716 | 949 | 1,251 |
| Paid-up capital | 1,100 | 1,100 | 1,100 | 1,100 | 1,100 |
| Total equity | 2,959 | 2,969 | 3,161 | 3,145 | 3,227 |
| BVPS (Bt) | 0.27 | 0.27 | 0.29 | 0.29 | 0.29 |

Cash Flow Statement (Btmn)

| FY Dec 31 | 2014 | 2015 | 2016F | 2017F | 2018F |
|-------------------------------|------------|-------------|------------|------------|-----------|
| Core Profit | 481 | 538 | 581 | 700 | 862 |
| Depreciation and amortization | 136 | 164 | 210 | 241 | 280 |
| Operating cash flow | 485 | 710 | 632 | 901 | 1,103 |
| Investing cash flow | (612) | (588) | (1,020) | (420) | (620) |
| Financing cash flow | 38 | (174) | 556 | (288) | (397) |
| Net cash flow | 502 | (85) | 121 | 177 | 62 |

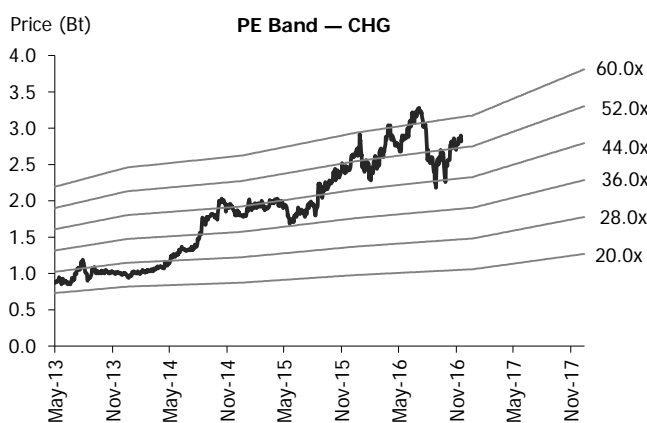
Main Assumptions

| | 2014 | 2015 | 2016F | 2017F | 2018F |
|---------------------------------|------|------|-------|-------|-------|
| Revenue breakdown (%) | | | | | |
| Cash service | 51 | 51 | 54 | 57 | 62 |
| Social securities (SC) | 41 | 36 | 36 | 34 | 30 |
| Universal coverage project (UC) | 8 | 13 | 10 | 9 | 8 |

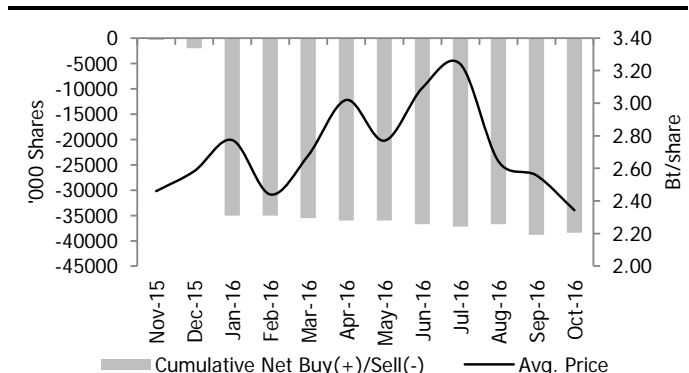
Key Financial Ratios

| FY Dec 31 | 2014 | 2015 | 2016F | 2017F | 2018F |
|---------------------------|----------|----------|-------|----------|----------|
| Gross margin(%) | 34.3 | 34.0 | 32.3 | 32.7 | 32.6 |
| Operating margin(%) | 20.8 | 20.5 | 19.2 | 20.0 | 20.3 |
| EBITDA margin(%) | 27.1 | 26.3 | 25.4 | 26.6 | 27.0 |
| EBIT margin(%) | 18.5 | 19.5 | 20.5 | 21.5 | 22.5 |
| Net profit margin(%) | 18.0 | 17.1 | 15.8 | 16.6 | 17.2 |
| ROE (%) | 17.7 | 18.7 | 17.9 | 18.8 | 20.6 |
| ROA (%) | 15.4 | 15.8 | 14.1 | 14.1 | 15.8 |
| Net D/E (x) | net cash | net cash | 0.0 | net cash | net cash |
| Interest coverage (x) | 628.6 | 1,031.2 | 197.9 | 53.5 | 69.7 |
| Debt service coverage (x) | 23.6 | 15.8 | 1.6 | 1.9 | 2.3 |
| Payout Ratio (%) | 45.8 | 24.5 | 50.0 | 50.0 | 50.0 |

PE Band Chart

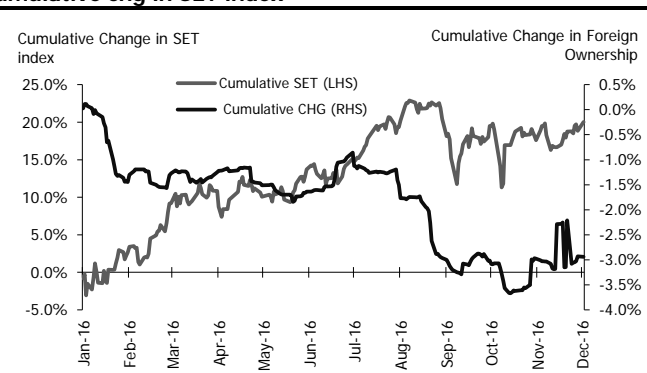


12-Month Cumulative directors trade



Source: SEC

12 Month cumulative chg in foreign ownership versus cumulative chg in SET index

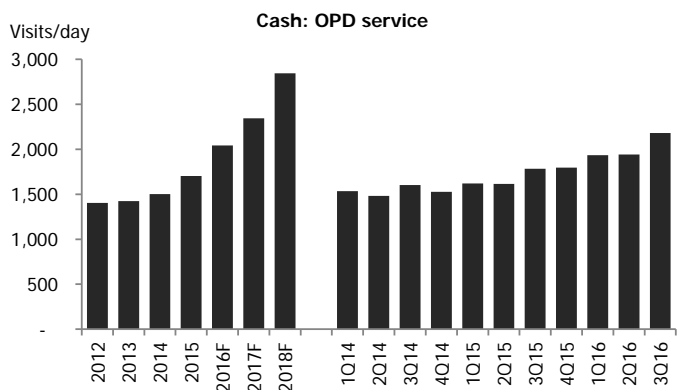


Source: SET, SCBS Investment Research

Strengthening cash patient service

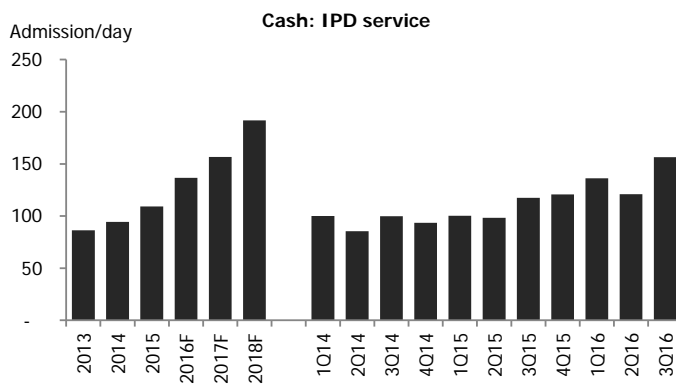
Growing cash service. CHG’s major patient target is those who pay cash (cash service): these provided 54% of 9M16 revenue and were chiefly middle income earners. It is also on the social security scheme (SC), which supplied 36% of 9M16 revenue. In 9M16, CHG’s cash patient volume jumped 21% YoY for its OPD service and 31% YoY for IPD service. We expect patient volume to continue to grow strongly and be a key driver for CHG’s cash service revenue. We forecast an increase of 18% p.a. for cash patients, both OPD and IPD service, during 2016-18, underwritten by rising healthcare demand, an improving economy and available capacity to handle the growing demand.

Figure 1: Cash service: OPD visit trend



Source: Company data and SCBS Investment Research

Figure 2: Cash service: IPD admission trend



Source: Company data and SCBS Investment Research

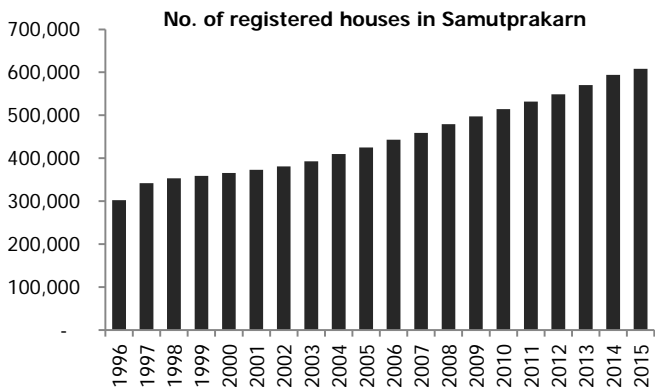
1) Rising demand. This is especially strong in Samut Prakarn province, CHG’s home base, where two of its three flagship hospitals are located: Chularat 3 Hospital and Chularat 9 Hospital. The third, Chularat 11 Hospital, is in neighboring Chacheongsao. Samut Prakarn is on the outskirts of the Bangkok metropolis and, of all five provinces surrounding Bangkok (Nakhon Pathom, Nonthaburi, Pathum Thani and Samut Sakhon), it has the largest economy in terms of Gross Provincial Product and population base. Behind this is growing urbanization as seen in the rising number of house registrations and growing business activities in its large and well-established industrial and factory zones. Though the growing population and economic prospects are generating rising healthcare demand, there is no accompanying surge in supply in healthcare service facilities. The number of hospital beds (public and private hospitals) per 1,000 populations is 2.7 in Samut Prakarn, just slightly above the country’s 2.5 but just half Bangkok’s 5.6 and lower than other adjacent areas, such as 4.7 in Nonthaburi and 3.6 in Samut Sakhon.

Figure 3: In the Bangkok Metropolitan Region, Samut Prakarn is the largest in terms of Gross Provincial Product and population base

| | 2014 Gross Provincial Product (Btmn) | 2014 Population (000) |
|-------------------------------|---|--------------------------|
| Bangkok | 4,128,734 | 8,582 |
| Samut Prakarn | 655,304 | 1,979 |
| Samut Sakhon | 335,602 | 933 |
| Pathum Thani | 321,886 | 1,423 |
| Nakhon Pathom | 261,676 | 1,020 |
| Nonthaburi | 254,643 | 1,456 |
| Bangkok and vicinities | 5,957,845 | 15,394 |

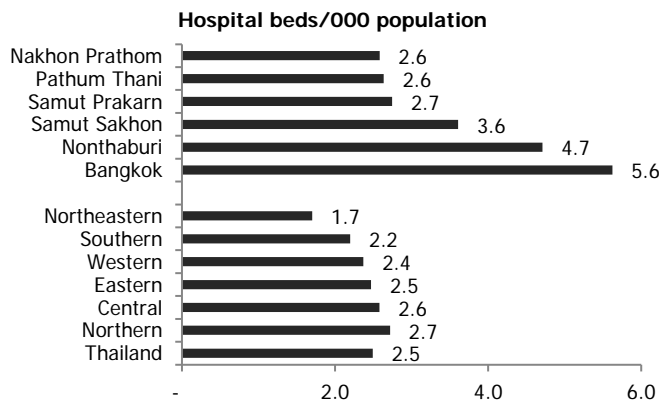
Source: NESDB and SCBS Investment Research

Figure 4: Rising house registrations in Samut Prakarn



Source: Department of Provincial Administration and SCBS Investment Research

Figure 5: Hospital supply is low in Samut Prakarn

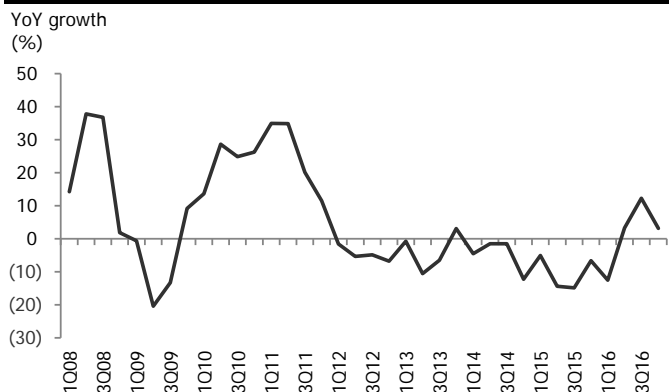


Source: Ministry of Public Health and SCBS Investment Research
Data as of 2014

2) Improving economy helps hospitals serving mid- to low-incomers.

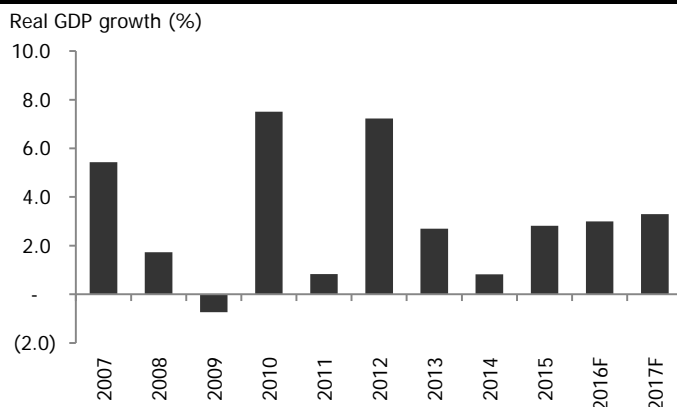
Although medical treatment is a necessity, patients in the lower income spectrum have greater sensitivity to the economy and will tend to put off treatment for things that are not life-threatening during economic slowdowns; those in the upper end are less sensitive to the state of the economy. Thailand's economy is improving, as shown in rising Farm Income Index and GDP growth forecast by SCB EIC at 3.3% in 2017, accelerating from 3.0% in 2016. The improving economy will restart healthcare spending in the middle to lower segment, CHG's major area of focus.

Figure 6: Rising Farm Income Index



Source: Office of Agricultural Economics and SCBS Investment Research

Figure 7: Thailand's GDP growth forecast



Source: SCB EIC and SCBS Investment Research

3) Available capacity. CHG's patient numbers (cash and SC services) grew at an

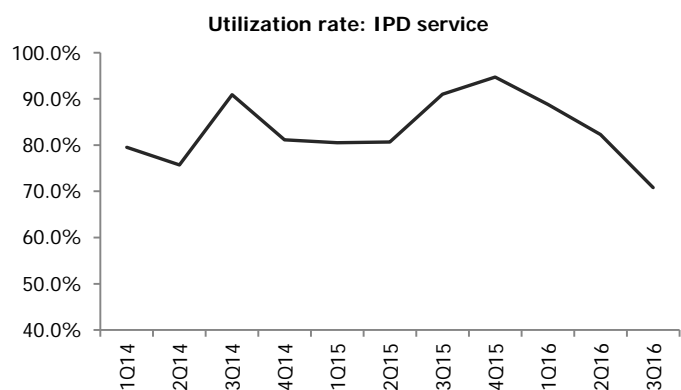
8% CAGR during 2011-15, and the strong patient growth drove bed utilization rate up from 72% in 2011 to 87% in 2015 to peak at 95% in 4Q15, giving rise to worries about capacity constraints - which could cap cash service growth. To ease this concern, CHG undertook expansion at its three flagship hospitals, increasing bed capacity by 30% to 582 beds. This was completed in 3Q16 and brought bed utilization down to 71% in 3Q16. It plans to continue to expand, raising bed capacity to 841 beds in 2019. OPD overcapacity is not a concern: OPD utilization was 71% in 3Q16, giving plenty of growth room.

Figure 8: CHG's capacity increase after expansion completed

| Type | Year of operation | Location | 4Q15 | 1Q16 | 2Q16 | 3Q16 |
|--------------------------|-------------------|--------------------|------------|------------|------------|------------|
| No. of exam rooms | | | | | | |
| Chularat 1 | Hospital | 1986 Samut Prakarn | 5 | 5 | 5 | 5 |
| Chularat 2 | Clinic | 1990 Samut Prakarn | 3 | 3 | 3 | 2 |
| Chularat 3 | Hospital | 1991 Samut Prakarn | 33 | 33 | 42 | 42 |
| Chularat 4 | Clinic | 1993 Samut Prakarn | 3 | 3 | 3 | 2 |
| Chularat 5 | Hospital | 1994 Samut Prakarn | 5 | 5 | 5 | 5 |
| Chularat 7 | Clinic | 1993 Bangkok | 1 | 1 | 1 | 1 |
| Chularat 8 | Clinic | 1993 Bangkok | 2 | 2 | 2 | 2 |
| Chularat 9 | Hospital | 1993 Samut Prakarn | 25 | 25 | 25 | 28 |
| Chularat 11 | Hospital | 1994 Chacheongsao | 22 | 22 | 21 | 21 |
| Chularat 12 | Clinic | 2012 Chacheongsao | 2 | 2 | 2 | 2 |
| Cholvaej | Hospital | 2014 Chonburi | 3 | 3 | 3 | 3 |
| Chularat 304 Inter | Clinic | 2014 Prachinburi | 2 | 2 | 2 | 3 |
| Chularat Rong Kluea | Clinic | 2015 Srakeaw | 2 | 2 | 2 | 1 |
| Chularat Rayong | Hospital | 2016 Rayong | 5 | 4 | 5 | 5 |
| Total exam rooms | | | 113 | 112 | 121 | 122 |
| No. of beds | | | | | | |
| Chularat 1 | Hospital | 1986 Samut Prakarn | 21 | 21 | 26 | 26 |
| Chularat 3 | Hospital | 1991 Samut Prakarn | 134 | 134 | 134 | 189 |
| Chularat 5 | Hospital | 1994 Samut Prakarn | 26 | 26 | 26 | 26 |
| Chularat 9 | Hospital | 1993 Samut Prakarn | 100 | 100 | 100 | 139 |
| Chularat 11 | Hospital | 1994 Chacheongsao | 100 | 100 | 100 | 141 |
| Cholvaej | Hospital | 2014 Chonburi | 11 | 11 | 11 | 11 |
| Chularat Rayong | Hospital | 2016 Rayong | 50 | 50 | 50 | 50 |
| Total beds | | | 442 | 442 | 447 | 582 |

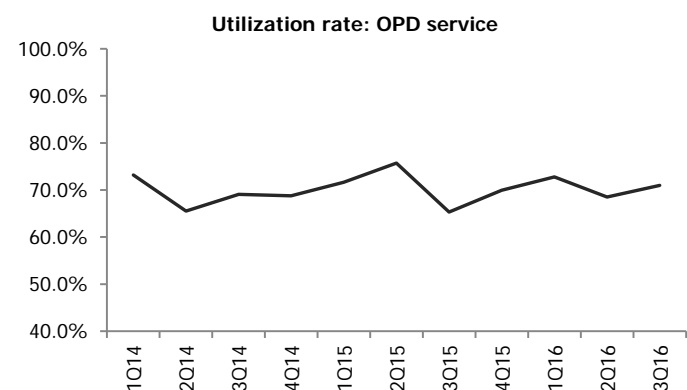
Source: Company data and SCBS Investment Research

Figure 9: Utilization rate of IPD service



Source: Company data and SCBS Investment Research

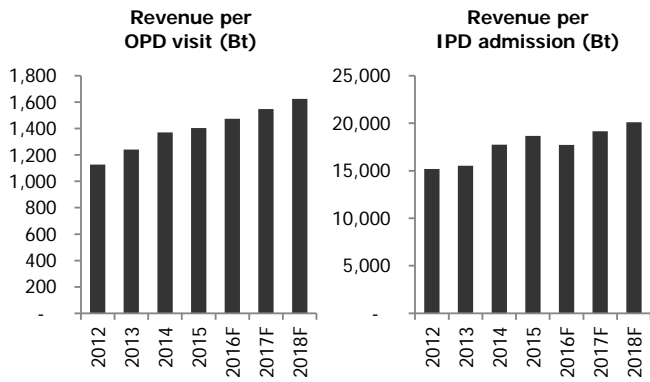
Figure 10: Utilization rate of OPD service



Source: Company data and SCBS Investment Research

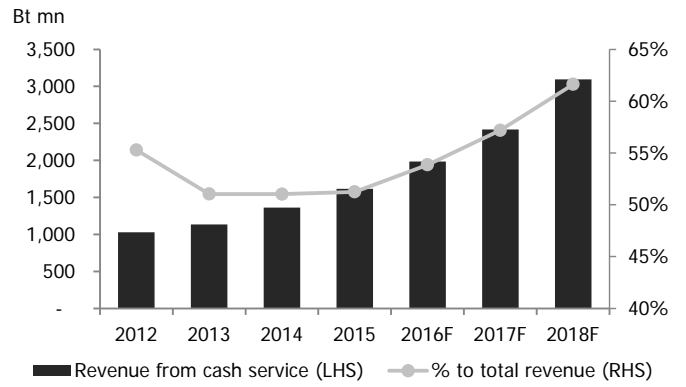
Cash service revenue contribution rising over 60% in 2018. In 9M16, revenue per patient grew 5% YoY for OPD service (Bt1,440) but slipped 6% YoY for IPD service (Bt17,944) due to a higher proportion of lower-yield patients after bed capacity was boosted. Over the next two years, we forecast CHG's revenue per patient to grow 5% p.a. for OPD service and 6% p.a. for IPD service, based on a 3% inflation rate and a rise of 2-3% in revenue intensity. Backed by higher patient volume and revenue per patient, we expect revenue from cash service to grow from Bt2.0bn in 2016 to Bt3.1bn in 2018, or 25% CAGR and account for 62% of revenue (up from 54% in 9M16).

Figure 11: Forecast revenue per patient



Source: Company data and SCBS Investment Research

Figure 12: Strengthening cash patient service



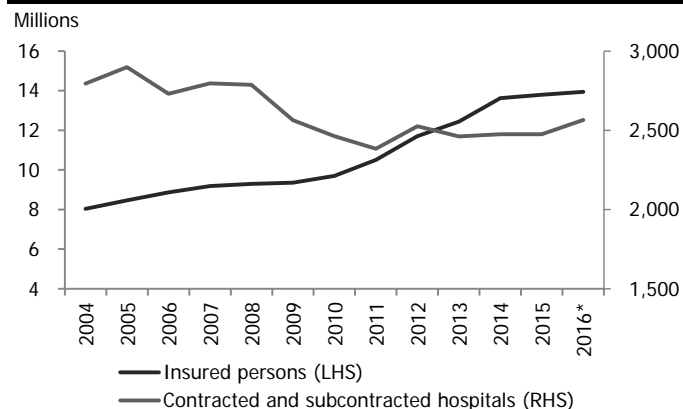
Source: Company data and SCBS Investment Research

Growing SC operations

Demand is rising but supply declining. Since 2006, the number of SC insured persons in Thailand has jumped from 8.9mn to 14mn as of October 2016 – but at the same time, the number of hospitals serving these patients has fallen 6% to 2.6K as some hospitals left the scheme. This is a positive to hospitals accepting SC patients, including CHG, where SC service revenue accounted for 36% of revenue in 9M16.

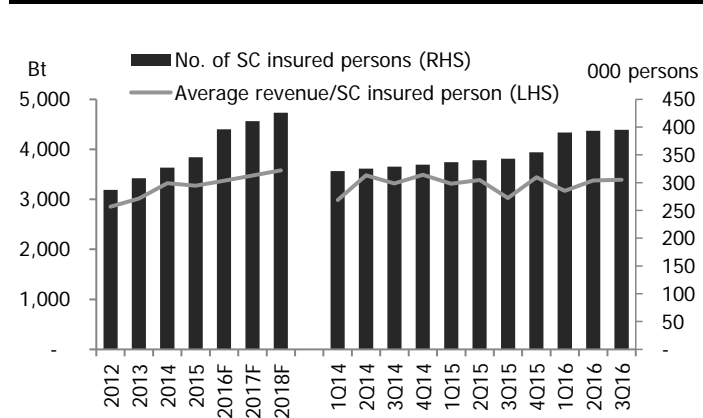
As of November, CHG has 401K insured persons on its SC list, up 16% from 345K in 2015 driven by a 7% increase in its existing hospitals and 30K additional SC insured persons from Chularat Rayong Hospital (acquired in March and formerly Ruampat Rayong Hospital). It has a quota of 480K SC clients, giving it room to add more. CHG's average revenue per SC patient in 9M16 was Bt3,293, up 2% YoY. The rise in volume and in billing points to CHG's expertise in SC and its ability to provide more complex medical treatment. We estimate CHG's SC revenue will grow from Bt1.3bn in 2016 to Bt1.5bn in 2018 or 7% CAGR, underwritten by 4% volume growth and 3% billing increase. Upside lies in a possible hike in SC reimbursement since this has been frozen since 2012.

Figure 13: SC service in Thailand: demand is growing but supply is declining



Source: Social Security Office and SCBS Investment Research

Figure 14: CHG's SC service has seen a rise in volume and billing



Source: Company data and SCBS Investment Research

Future investments should not be a burden

Investments in the pipeline. CHG has three investment projects in the pipeline: 1) an expansion of Chularat Cholavaej Hospital in Chonburi that will add 59 beds, with operations expected to start in 1H17; 2) an upgrade of Chularat 304 International Hospital in Prachinburi from a clinic to a hospital by adding 100 beds, operations to start in 1H18; and 3) a greenfield project, Ruampat Chacheongsao Hospital in Chacheongsao (CHG has a 64.58% holding). This is a 100-bed hospital which is expected to open its doors in 2019.

Figure 15: CHG's planned investment

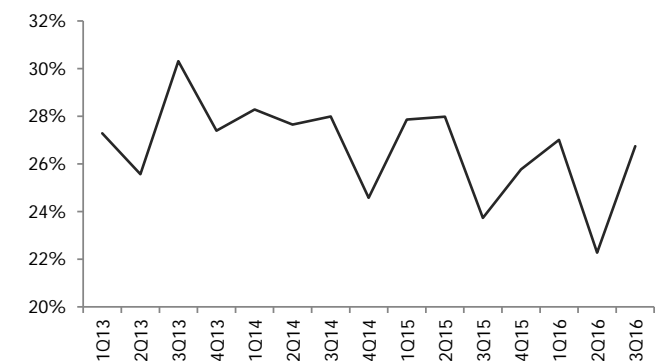
| Hospital | Project | Exam rooms | Beds | Location | Expected operating period | Investment value (Bt mn) |
|----------------------------|---------------------|------------|------|--------------|---------------------------|--------------------------|
| Chularat Cholavaej | Expansion | 5 | 59 | Chonburi | 1H17 | 200 |
| Chularat 304 International | Upgrade from clinic | 15 | 100 | Prachinburi | 1H18 | 375 |
| Ruampat Chacheongsao | Greenfield | 20 | 100 | Chacheongsao | 2019 | 600 |

Source: Company data and SCBS Investment Research

Future investments should not be a burden. The market is worried that the upcoming investments will pressure margin again, as did the costs from the recently completed (3Q16) expansion at its three flagship hospitals. This expansion pressured CHG's EBITDA margin down from 27.1% in 2014 to 26.3% in 2015 and 25.6% in 9M16, with the greatest burden arising from higher staff cost. However, we do not expect the planned new investments to damage EBITDA margin for the reasons given below.

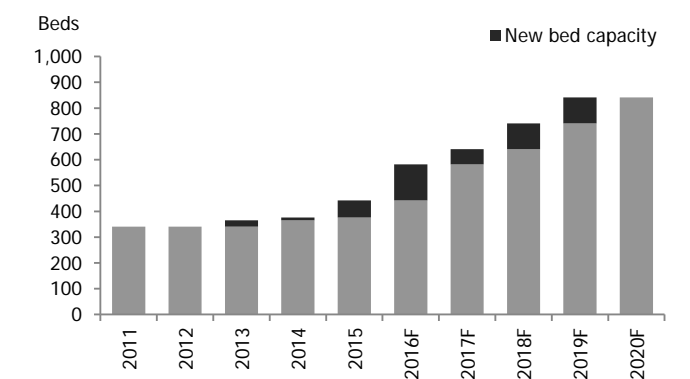
- 1) Future investments are not large.** As outlined in its plan, bed capacity will increase by 10% in 2017, 16% in 2018 and 13% in 2019, a slower pace than the large 32% added at the recent expansion at its three flagship hospitals. Also, staffing has reached optimal levels at these three hospitals, removing that cost pressure, and operations are back to growth, easing overall margin pressure.
- 2) Positive prospects in investment areas.** The market is also concerned about projects in Prachinburi and Chacheongsao, where investment is sizable and, in Prachinburi, will face competition from BCH's 115-bed hospital, Kasemrad Kabinburi Hospital, now under development and expected to open in 3Q19. We do not anticipate intense competition given the low supply in both provinces, particularly for private hospitals. Prachinburi has only 2.3 beds/1000 population and Chacheongsao has 1.9, lower than the 2.5 average for the eastern region and Thailand as a whole. Moreover, private hospitals supply only 5% of all beds in Prachinburi and 15% in Chacheongsao but we believe healthcare demand in both provinces is rising, gaining from a growing economy and business activity in Thailand's eastern region as AEC is increasingly coming into play. Aside from this, there is potential growth lying in patients from neighboring countries such as Cambodia.

Figure 16: Declining EBITDA margin from cost pressure from expansion at the three flagship hospitals



Source: Company data and SCBS Investment Research

Figure 17: Future investments are not large compared to total capacity

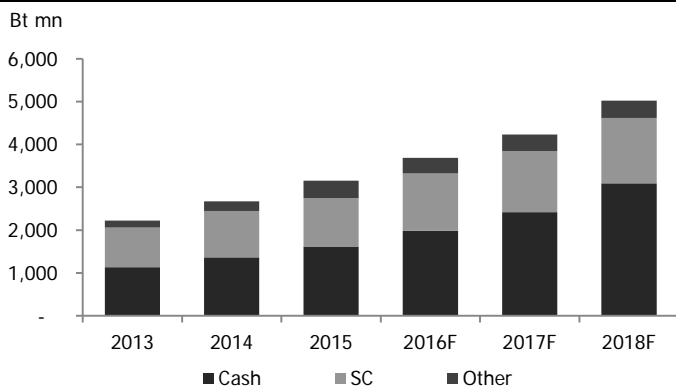


Source: Company data and SCBS Investment Research

Earnings moving up

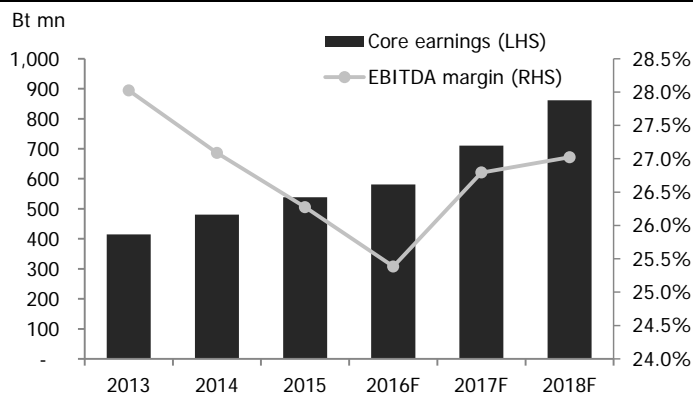
22% core earnings CAGR in 2016-18. We estimate CHG's core earnings growth at 8% YoY in 2016 to Bt581mn, with growth accelerating to a 22% CAGR over the next two years. Our assumptions are: 1) revenue growth of a 17% CAGR from strengthening cash service and improving SC operations and 2) EBITDA margin to hit bottom in 2016 at 25.4% and then improve to 26.6% in 2017 and 27% in 2018 as recent expansion in the three core hospitals begin to pay off and the fact the new investments are smaller.

Figure 18: Revenue forecast



Source: Company data and SCBS Investment Research

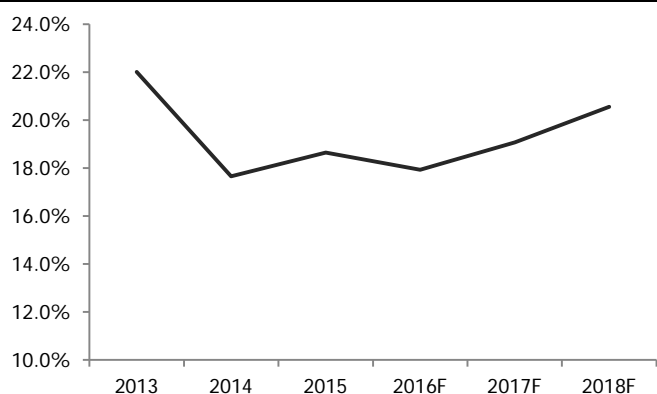
Figure 19: EBITDA margin and core earnings forecast



Source: Company data and SCBS Investment Research

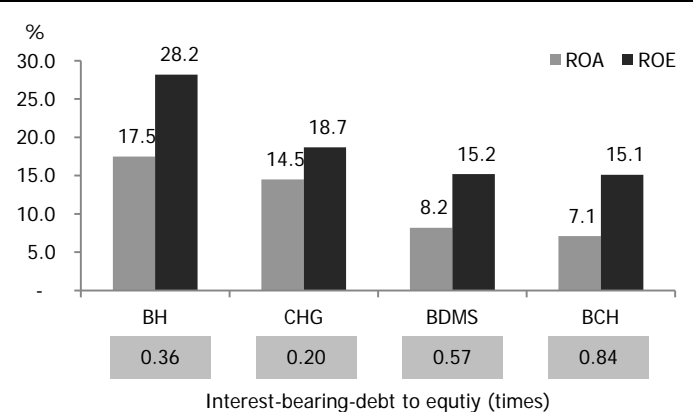
ROE expansion. The stronger earnings growth prospects will drive CHG's return on equity (ROE) expansion to an estimated 20.6% in 2018 from 17.9% in 2016. In our view, CHG has room for ROE improvement via financial benefit from an increasing debt leverage given its strong return on assets (ROA). Based on 9M16 statistics, of those in our healthcare coverage, CHG's ROA is high at 14.5% (vs. 7.1% for BCH, 8.2% for BDMS and 17.5% for BH) reflecting better asset utilization and effectiveness in generating return on assets. Against this, its debt financing in term of interest-bearing debt to equity is low at 0.2x (vs. 0.8x for BCH, 0.6x for BDMS and 0.4x for BH).

Figure 20: ROE expansion in 2016-18



Source: Company data and SCBS Investment Research

Figure 21: CHG has high ROA and ROE



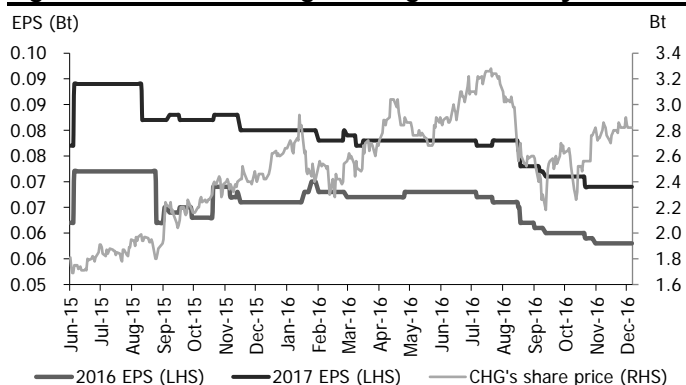
Source: Company data and SCBS Investment Research

Top pick in the sector. BUY with end-2017 TP at Bt3.5/share.

We initiate CHG as a BUY with end-2017 TP at Bt3.5/share based on DCF valuation (WACC at 8% and long-term growth rate at 3%), suggesting 25% upside gain. In the healthcare service sector, CHG becomes our lead pick followed by BCH (TP Bt17/share).

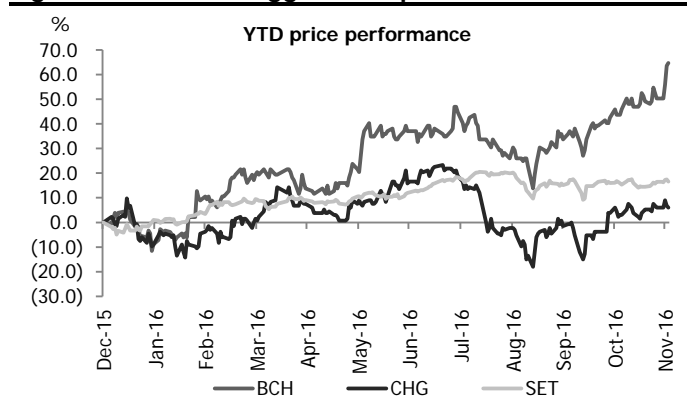
We see an investment opportunity in CHG: its price is a laggard but earnings prospects improving. CHG's share has fallen 15% from its peak in July 2016 and YTD has hugely underperformed direct peer BCH by 36% and the SET by 11%. This reflects the earnings hiccup related to the expansion of its three flagship hospitals, which was followed by earnings downgrades by the street. We believe the round of downgrades is ending as the expansion is completed and operations coming back up. CHG is marching into a growth cycle with 22% core earnings CAGR for the next two years, beating out BCH (20%), BH (13%) and BDMS (12%). CHG is trading at 2.0x 2017 PE-to-earnings growth that is below the regional average of 2.3x and its valuation at 53x PE in 2016 will go down sharply to 36x PE in 2018.

Figure 22: CHG's earnings downgrades nearly over



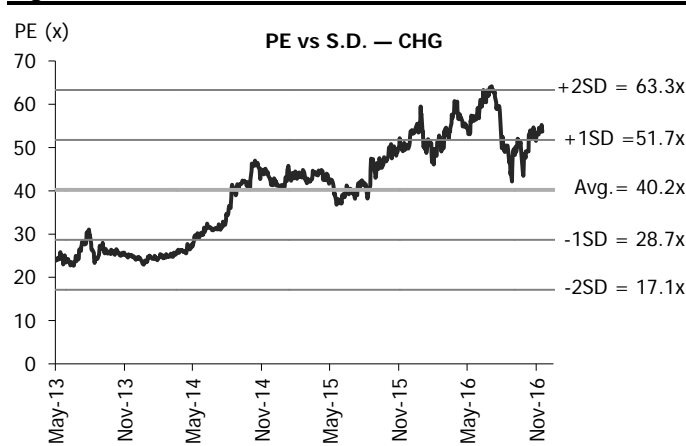
Source: Bloomberg and SCBS Investment Research

Figure 23: CHG is a laggard compared to BCH and SET



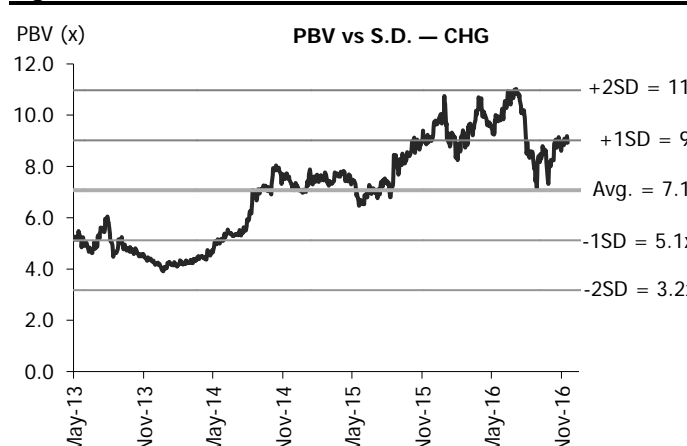
Source: SET and SCBS Investment Research

Figure 24: CHG's PE band



Source: SET and SCBS Investment Research

Figure 25: CHG's PB band



Source: SET and SCBS Investment Research

Figure 26: Regional valuation comparison

| Ticker | Country | Mkt Cap U\$ mn. | PE (x) | | | EPS Growth (%) | | | PBV (x) | | | Div. Yield (%) | | | ROE (%) | | | EV/EBITDA (x) | | |
|----------------------------|-------------|--------------------|-------------|-------------|-------------|----------------|-------------|-------------|------------|------------|------------|----------------|------------|------------|-------------|-------------|-------------|---------------|-------------|-------------|
| | | | 16F | 17F | 18F | 16F | 17F | 18F | 16F | 17F | 18F | 16F | 17F | 18F | 16F | 17F | 18F | 16F | 17F | 18F |
| Bangkok Chain Hospital | *Thailand | 1,050 | 49.1 | 40.8 | 34.3 | 44.6 | 20.1 | 19.1 | 7.0 | 6.3 | 5.6 | 0.7 | 0.9 | 1.0 | 14.9 | 16.3 | 17.4 | 22.3 | 19.3 | 17.3 |
| Bangkok Dusit Medical* | Thailand | 10,133 | 43.8 | 39.2 | 34.6 | 6.8 | 11.9 | 13.1 | 6.4 | 5.9 | 5.4 | 1.1 | 1.3 | 1.4 | 14.6 | 15.6 | 16.2 | 25.6 | 23.0 | 20.4 |
| Bumrungrad Hospital* | Thailand | 3,958 | 39.4 | 35.5 | 31.1 | 5.5 | 11.1 | 14.2 | 9.8 | 8.6 | 7.6 | 1.3 | 1.4 | 1.6 | 26.0 | 25.7 | 26.0 | 24.5 | 22.0 | 19.1 |
| Chularat Hospital* | Thailand | 865 | 53.0 | 44.0 | 35.7 | 7.9 | 20.5 | 23.0 | 8.6 | 7.7 | 6.8 | 0.9 | 1.1 | 1.4 | 17.9 | 18.8 | 20.6 | 32.1 | 26.4 | 21.7 |
| Ladprao General Hospital | Thailand | 187 | 39.4 | 32.6 | 28.3 | 32.9 | 20.8 | 15.4 | 4.1 | 3.9 | 3.8 | 1.7 | 2.0 | 2.5 | 10.8 | 12.2 | 13.7 | 23.9 | 19.8 | 16.4 |
| Vibhavadi Medical Center | Thailand | 1,050 | 35.5 | 33.4 | 31.6 | 36.8 | 6.3 | 5.9 | 5.8 | 5.6 | 4.9 | 1.4 | 1.4 | 1.8 | 14.7 | 15.0 | 15.8 | 27.6 | 25.0 | 22.6 |
| KPJ Healthcare Bhd | Malaysia | 993 | 30.8 | 27.0 | 23.9 | 4.3 | 14.0 | 12.9 | 2.8 | 2.7 | 2.5 | 1.7 | 1.9 | 2.2 | 9.5 | 10.0 | 11.0 | 15.1 | 13.1 | 12.0 |
| IHH Healthcare Bhd | Malaysia | 11,904 | 55.1 | 44.7 | 36.5 | 1.9 | 23.3 | 22.4 | 2.3 | 2.2 | 2.2 | 0.5 | 0.6 | 0.7 | 4.2 | 5.0 | 5.9 | 24.2 | 21.0 | 18.1 |
| Raffles Medical Group | Singapore | 1,797 | 35.6 | 31.1 | 27.5 | 1.2 | 14.6 | 12.8 | 3.8 | 3.6 | 3.3 | 1.4 | 1.4 | 1.6 | 11.5 | 12.1 | 13.0 | 25.2 | 22.1 | 19.2 |
| Apollo Hospitals Enterpris | India | 2,502 | 49.4 | 39.4 | 28.8 | -5.6 | 25.4 | 36.8 | 4.6 | 4.3 | 3.9 | 0.5 | 0.6 | 0.9 | 9.6 | 11.0 | 13.9 | 22.7 | 19.4 | 15.8 |
| Ramsay Health Care | Australia | 10,240 | 26.9 | 23.9 | 21.5 | 15.1 | 12.5 | 11.0 | 6.4 | 5.7 | 5.1 | 1.9 | 2.2 | 2.4 | 24.1 | 24.1 | 23.6 | 12.7 | 11.7 | 10.8 |
| Ryman Healthcare | New Zealand | 3,005 | 24.4 | 21.2 | 18.1 | -2.7 | 14.8 | 17.1 | 2.9 | 2.6 | 2.3 | 2.1 | 2.3 | 2.7 | 13.0 | 12.6 | 13.1 | 18.0 | 17.4 | 16.0 |
| Average | | | 40.2 | 34.4 | 29.3 | 12.4 | 16.3 | 17.0 | 5.4 | 4.9 | 4.4 | 1.3 | 1.4 | 1.7 | 14.2 | 14.9 | 15.9 | 22.8 | 20.0 | 17.4 |

Source: Bloomberg

*SCBS estimates

Risks and concerns

Workforce shortage. Medical services need specially qualified staff, and the number of these is limited. It also takes years to train newcomers to where they have the requisite skills and knowledge. This may leave CHG short of staff at some point. However, good compensation and benefits such as training and scholarships plus a good working environment has kept CHG adequately staffed. This also helps reduce the risk of a staff shortage in the future.

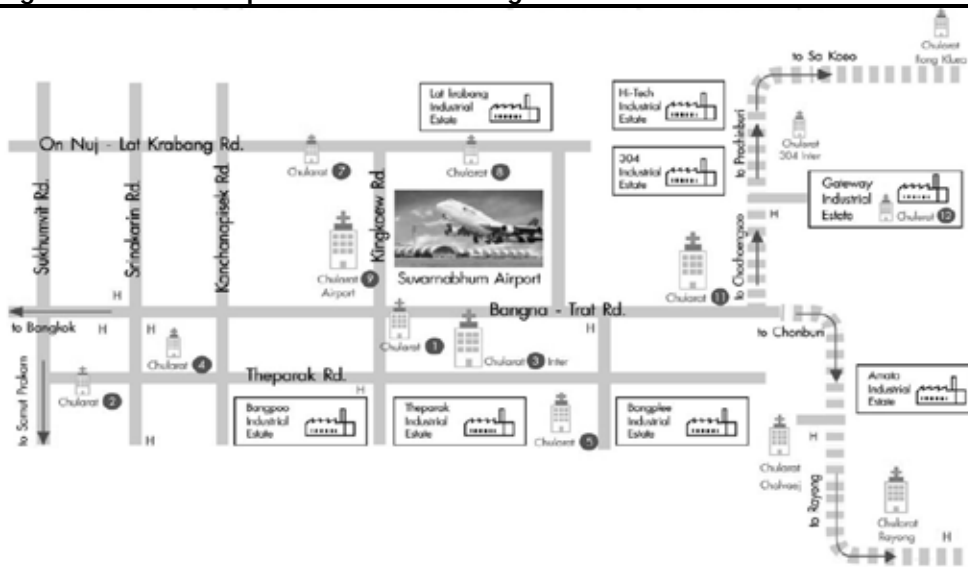
Economic slowdown. Although medical treatment is a necessity, patients in the lower income spectrum – CHG's major patient segment -have greater sensitivity to the economy and will tend to put off treatment for things that are not life-threatening during economic slowdowns; those in the upper end are less sensitive to the state of the economy.

Appendix

Company background

CHG was founded in 1986 to operate private hospitals and clinics. At this time it has 14 facilities with 582 beds. Its network covers the area around Suvarnabhumi Airport (Eastern Bangkok area) along Bangna-Trad Road and extending to Chachoengsao, along Highway 304 to Prachinburi, Chonburi, Sakeaw and Rayong. CHG focuses on the middle income segment and serves those covered by the social security scheme. Though not part of the universal coverage scheme, it does have some patients on these scheme for hemodialysis and heart disease treatment. CHG is increasing its specialty medical centers. Its most outstanding of these is the hand surgery and orthopedic unit at Chularat 3 Hospital which has received international accreditation from JCI. Major shareholders are the Plussind family (40% of total issued shares) and the Panyapol family (20% of total issued shares).

Figure 27: CHG's hospital network coverage



Source: Company data

CG Rating 2016 Companies with CG Rating

▲▲▲▲▲

AMATA, AOT, BAFS, BAY, BCP, BIGC, BTS, BWG, CK, CPF, CPN, CSL, DELTA, DEMCO, DRT, DTAC, DTC, EASTW, EGCO, GFPT, GPSC, GRAMMY, HANA, HMPRO, INTUCH, IRPC, IVL, KBANK, KCE, KKP, KTB, KTC, LHBANK, LPN, MBK, MCOT, MINT, MONO, NKI, NYT, OTO, PHOL, PPS, PS, PSL, PTT, PTTEP, PTTGC, QH, QTC, RATCH, SAMART, SAMTEL, SAT, SC, SCB, SCC, SCCC, SE-ED, SIM, SITHAI, SNC, SPALI, SSSC, STEC, SVI, TCAP, THCOM, TISCO, TKT, TMB, TNDT, TOP, TSC, TTCL, TU, UV, VGI, WACOAL, WAVE

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2S, AAV, ACAP, ADVANC, AGE, AH, AHC, AKP, ALUCON, AMANAH, ANAN, AP, APCO, APCS, ARIP, ASIA, ASIMAR, ASK, ASP, AUCTION, AYUD, BANPU, BBL, BDMS, BEM, BFIT, BLA, BOL, BROOK, CEN, CENTEL, CFRESH, CGH, CHG, CHO, CHOW, CI, CIMBT, CKP, CM, CNS, CNT, COL, CPI, DCC, EA, ECF, EE, ERW, FORTH, FPI, GBX, GC, GCAP, GL, GLOBAL, GLOW, GUNKUL, HOTPOT, HYDRO, ICC, ICHI, IFEC, INET, IRC, JSP, K, KSL, KTIS, L&E, LANNA, LH, LHK, LIT, LOXLEY, LRH, LST, M, MACO, MALEE, MBKET, MC, MEGA, MFC, MOONG, MSC, MTI, MTL, NCH, NOBLE, NSI, NTV, OCC, OGC, OISHI, ORI, PACE, PAP, PB, PCSGH, PDI, PE, PG, PJW, PLANB, PM, PPP, PR, PRANDA, PREB, PRG, PRINC, PT, PTG, PYLON, Q-CON, RICHY, ROBINS, RS, RWI, S, S & J, SABINA, SALEE, SAMCO, SCG, SEAFCO, SFP, SIAM, SINGER, SIS, SMK, SMPC, SMT, SNP, SPI, SPPT, SPRC, SR, SSF, SST, STA, SUSCO, SUTHA, SWC, SYMC, SYNEX, SYNTEC, TAE, TAKUNI, TASCOS, TBSP, TCC, TF, TFI, TGI, THAI, THANA, THANI, THIP, THRE, THREL, TICON, TIPCO, TK, TKS, TMC, TMI, TMILL, TMT, TNITY, TNL, TOG, TPC, TPCORP, TRC, TRU, TRUE, TSE, TSR, TSTE, TSTH, TTA, TTW, TVD, TVO, TWPC, UAC, UP, UPF, VIH, VNT, WINNER, YUASA, ZMICO

▲▲▲

AEC, AEONTS, AF, AIRA, AIT, AJ, AKR, AMARIN, AMATAV, AMC, APURE, AQUA, ARROW, AS, BA, BEAUTY, BEC, BH, BIG, BJC, BJCHI, BKD, BR, BROCK, BRR, BTNC, CBG, CGD, CHARAN, CITY, CMR, COLOR, COM7, CPL, CSC, CSP, CSR, CSS, CTW, DCON, DIMET, DNA, EARTH, EASON, ECL, EFORL, EPCO, EPG, ESSO, FE, FER, FOCUS, FSMART, FSS, FVC, GEL, GIFT, GLAND, GOLD, GSTEL, GYT, HPT, HTC, HTECH, IFS, IHL, ILINK, INSURE, IRCP, IT, ITD, J, JMART, JMT, JUBILE, JWD, KASET, KBS, KCAR, KGI, KKC, KOOL, KWC, KYE, LALIN, LPH, MAJOR, MAKRO, MATCH, MATI, M-CHAI, MDX, MFEC, MJD, MK, MODERN, MPG, NC, NCL, NDR, NEP, NOK, NUSA, PATO, PCA, PDG, PF, PICO, PIMO, PL, PLAT, PLE, PMTA, PPM, PRIN, PSTC, QLT, RCI, RCL, RICH, RML, RPC, SANKO, SAPPE, SAWAD, SCI, SCN, SCP, SEAOIL, SENA, SIRI, SKR, SLP, SMG, SMIT, SORKON, SPA, SPC, SPCG, SPVI, SSC, STANLY, STPI, SUC, TACC, TCCC, TCMC, TEAM, TFD, TFG, TIC, TIW, TKN, TLUXE, TMD, TNP, TOPP, TPA, TPAC, TPCH, TPIPL, TPOLY, TRITN, TRT, TTI, TVI, TWP, U, UBIS, UMI, UPOIC, UT, UWC, VIBHA, VPO, VTE, WICE, WIJK, WIN, XO

Corporate Governance Report

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. SCB Securities Company Limited does not confirm nor certify the accuracy of such survey result.

SMG was voluntarily delisted from the Stock Exchange of Thailand effectively on June 2, 2016

Anti-corruption Progress Indicator 2015

Certified (ได้รับการรับรอง)

ADVANC, AKP, AMANAH, ASP, AYUD, BAFS, BANPU, BAY, BBL, BCP, BKI, BLA, BTS, BWG, CENTEL, CFRESH, CIMBT, CNS, CPI, CPN, CSL, DCC, DEMCO, DIMET, DRT, DTAC, DTC, EASTW, ECL, EGCO, ERW, FE, FSS, GBX, GCAP, GLOW, HANA, HTC, ICC, IFEC, INTUCH, IRPC, IVL, KBANK, KCE, KGI, KKP, KTB, KTC, LANNA, LHBANK, LHK, MBK, MBKET, MFC, MINT, MONO, MOONG, MSC, MTI, NKI, NSI, OCEAN, PB, PE, PG, PHOL, PM, PPP, PPS, PR, PS, PSL, PT, PTG, PTT, PTTEP, PTTGC, Q-CON, QLT, RATCH, S & J, SABINA, SAT, SCB, SCC, SCG, SINGER, SIS, SMPC, SNC, SNP, SPC, SPI, SSF, SSI, SSSC, SVI, TCAP, TCMC, TF, TGI, THANI, THCOM, THRE, THREL, TIPCOS, TISCO, TMB, TMD, TNITY, TNL, TOG, TOP, TPC, TPCORP, TSC, TSTH, TTCL, TVI, WACOAL

Declared (ประกาศเจตนา)

2S, A, ABC, ABICO, ACAP, AEC, AF, AGE, AH, AI, AIE, AIRA, ALUCON, AMARIN, AMATA, ANAN, AOT, AP, APCO, APCS, APURE, AQUA, AS, ASIA, ASIAN, ASIMAR, ASK, BCH, BEAUTY, BFIT, BH, BIGC, BJCHI, BKD, BLAND, BROCK, BROOK, BRR, BSBM, BTNC, CEN, CGH, CHARAN, CHO, CHOTI, CHOW, CI, CM, COL, CPALL, CPF, CPL, CSC, CSR, CSS, DELTA, DNA, EA, ECF, EE, EFORL, EPCO, ESTAR, EVER, FC, FER, FNS, FPI, FSMART, FVC, GC, GEL, GFPT, GIFT, GLOBAL, GPSC, GREEN, GUNKUL, HMPRO, HOTPOT, ICHI, IEC, IFS, ILINK, INET, INOX, INSURE, IRC, J, JAS, JMART, JMT, JTS, JUBILE, JUTHA, K, KASET, KBS, KC, KCAR, KSL, KTECH, KYE, L&E, LALIN, LPN, LRH, LTX, LVT, M, MAKRO, MALEE, MBAX, MC, MCOT, MEGA, MFEC, MIDA, MILL, MJD, MK, ML, MPG, MTL, NBC, NCH, NCL, NDR, NINE, NMG, NNCL, NPP, NTV, NUSA, OCC, OGC, PACE, PAF, PCA, PCSGH, PDG, PDI, PIMO, PK, PLANB, PLAT, PRANDA, PREB, PRG, PRINC, PSTC, PYLON, QH, RML, ROBINS, ROCK, ROH, ROJNA, RP, RWI, SAMCO, SANKO, SAUCE, SC, SCCC, SCN, SEAOIL, SE-ED, SENA, SGP, SITHAI, SKR, SMIT, SMK, SORKON, SPACK, SPALI, SPCG, SPPT, SPRC, SR, SRICHA, STA, STANLY, SUPER, SUSCO, SYMC, SYNEX, SYNTEC, TAE, TAKUNI, TASCOS, TBSP, TEAM, TFG, TFI, THAI, TIC, TICON, TIP, TKT, TLUXE, TMC, TMI, TMILL, TMT, TPA, TPP, TRT, TRU, TRUE, TSE, TSI, TSTE, TTW, TU, TVD, TVO, TVT, TWPC, U, UBIS, UKEM, UNIQ, UOBKH, UREKA, UWC, VGI, VIBHA, VNG, VNT, WAVE, WHA, WICE, WIJK, WIN, XO, ZMICO

N/A

AAV, ACC, ADAM, AEONTS, AFC, AHC, AIT, AJ, AJD, AKR, ALLA, ALT, AMATAV, AMC, APX, AQ, ARIP, ARROW, ASEFA, ASN, ATP30, AUCTION, BA, BAT-3K, BCPG, BDMS, BEC, BEM, BGT, BIG, BIZ, BJC, BLISS, BM, BOL, BPP, BR, BRC, BSM, BTC, BTW, BUI, CBG, CCET, CCN, CCP, CGD, CHEWA, CHG, CHUO, CIG, CITY, CK, CKP, CMO, CMR, CNT, COLOR, COM7, COMAN, CPH, CPR, CRANE, CSP, CTW, CWT, DAIH, DCON, DCORP, DRACO, DSGT, DTCI, EARTH, EASON, EIC, EKH, EMC, EPG, ESSO, F&D, FANCY, FMT, FN, FOCUS, FORTH, GENCO, GJS, GL, GLAND, GOLD, GRAMMY, GRAND, GSTEL, GTB, GYT, HARN, HFT, HPT, HREIT, HTECH, HYDRO, IHL, IRCP, IT, ITD, ITEL, JCT, JSP, JWD, KAMART, KCM, KDH, KIAT, KKC, KOOL, KTIS, KWC, KWG, LDC, LEE, LH, LIT, LOXLEY, LPH, LST, MACO, MAJOR, MANRIN, MATCH, MATI, MAX, M-CHAI, MCS, MDX, METCO, MODERN, MPIC, NC, NEP, NETBAY, NEW, NEWS, NFC, NOBLE, NOK, NPK, NWR, NYT, OHTL, OISHI, ORI, OTO, PAE, PAP, PATO, PERM, PF, PICO, PJW, PL, PLE, PMTA, POLAR, POMPU, POST, PPM, PRAKIT, PRECHA, PRIN, PRO, PTL, QTC, RAM, RCI, RCL, RICH, RICHY, RIH, RPC, RS, S, S11, SAFARI, SALEE, SAM, SAMART, SAMTEL, SAPPE, SAWAD, SAWANG, SCI, SCP, SEAFCO, SELIC, SF, SFP, SGF, SHANG, SIAM, SIM, SIMAT, SIRI, SLP, SMART, SMM, SMT, SOLAR, SPA, SPG, SPORT, SPVI, SQ, SSC, SST, STAR, STEC, STHAI, STPI, SUC, SUTHA, SVH, SVOA, SWC, T, TACC, TAPAC, TC, TCB, TCC, TCCC, TCJ, TCOAT, TFD, TGPRO, TH, THANA, THE, THIP, THL, TIW, TK, TKN, TKS, TM, TMW, TNDT, TNH, TNP, TNR, TNPC, TOPP, TPAC, TPBI, TPCH, TPIPL, TPOLY, TPROP, TR, TRC, TRITN, TRUBB, TSF, TSR, TTA, TTI, TTL, TTTM, TUCC, TWP, TWZ, TYCN, UAC, UEC, UMI, UMS, UP, UPA, UPF, UPOIC, UT, UTP, UV, UVAN, VARO, VI, VIH, VPO, VTE, WG, WINNER, WORK, WORLD, WP, WR, YCI, YNP, YUASA

Explanations

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programmed (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into: companies that have declared their intention to join CAC, and companies certified by CAC.