

10 July 2012

Bumrungrad Hospital

Healthcare
Neutral

To divest 25% stake in KH

What's new? *Krungthep Turakij* newspaper reported that BH sold its 25% stake in KH (499m shares) to a group of foreign and local investors for Bt9.15/share. Note that BH bought KH from LH in March 2011.

We expect a Bt676m gain in 3Q12: BH effectively paid Bt7.39/share for its stake in KH in March 2012 (it actually paid Bt8.5/share, but it received a dividend). As such, we estimate a Bt676m (Bt0.93/share) net gain from its divestment, to be booked in the 3Q12 income statement. We had already anticipated a record core profit for the quarter (at least Bt580m); as a result of the asset sale we also expect unprecedented net earnings of Bt1.3bn for 3Q12.

Temporary net cash end-Sept: The cash inflow is expected at Bt3.5bn (net of tax). It will make for a net cash position at end-Sept—BH's best balance sheet in history.

Proceeds may prompt a new deal: We guess that the firm is considering a new acquisition and/or investment (many possible deals are under negotiation). We view that the company will reserve the money for capacity expansion—a new acquisition and a development. Given Bt3.5bn in net cash on-hand following the KH divestment, BH could expand capacity by about 40%, based on an estimated cost of Bt10m per IPD bed.

The firm may consider buying a bigger land plot on Petchaburi Road (from 4 rai to 5 rai) and building a new hospital on the site rather than just support departments (back office, finance and a dormitory for nurses).

Action: The transaction is positive news for the stock—a big net gain and a cash inflow. We still prefer BH with an unchanged TRADING BUY rating. We will roll over our investment horizon to YE13 soon. BH trades at an FY13 PER of 25.2x, equal to BGH.

BUALUANG RESEARCH

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TRADING BUY

(maintained)

Target Price: U/R
Price (09/07/12): Bt82.00
BH TB / BH.BK

Financial summary

FY Ended 31 Dec	2011	2012E	2013E	2014E
Revenues (Btm)	11,015	12,645	14,006	15,716
Net profit (Btm)	1,664	2,016	2,375	2,760
EPS (Bt)	2.28	2.76	3.25	3.78
BLS/Consensus (x)	n.m.	1.00	1.17	1.36
EPS growth (%)	+33.1%	+21.2%	+17.8%	+16.2%
Core profit (Btm)	1,543	2,016	2,375	2,760
Core EPS (Bt)	2.11	2.76	3.25	3.78
Core EPS growth (%)	+20.3%	+30.7%	+17.8%	+16.2%
PER (x)	36.0	29.7	25.2	21.7
Core PER (x)	38.8	29.7	25.2	21.7
EV/EBITDA (x)	24.9	21.5	19.1	16.9
PBV (x)	8.9	7.9	6.8	5.9
Dividend (Bt)	1.10	1.38	1.63	1.89
Dividend yield (%)	1.3	1.7	2.0	2.3
ROE (%)	26.0	28.1	29.0	29.1
Net gearing (x)	0.5	0.4	0.3	0.2

CG Rating - 2011



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Score Range	Number of Logo	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.