

## RATING ACTION COMMENTARY

# Fitch Rates Stichting Groene Hart Ziekenhuis 'A', Outlook Stable

Wed 23 Jun, 2021 - 10:50 AM ET

Fitch Ratings - Barcelona - 23 Jun 2021: Fitch Ratings has assigned Stichting Groene Hart Ziekenhuis (GHZ) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'A', with a Stable Outlook. A full list of rating actions is below.

The IDRs are derived using a bottom-up plus 1 rating approach, after taking into account the Standalone Credit Profile (SCP) of GHZ at 'a-' under our Revenue-Supported Debt Criteria (more than four notches away from the Dutch sovereign's 'AAA/Stable/'F1+' ratings) and its 12.5 point score under our Government-Related Entities (GRE) Criteria.

## KEY RATING DRIVERS

### Status, Ownership and Control: 'Weaker'

Dutch hospitals are private not-for-profit entities. They have no shareholders and are therefore controlled by their board of directors. The activities are strictly controlled by central government, in particular the quality of care.

### Support Track Record: 'Moderate'

Policy influence is moderately supportive of Dutch hospitals' financial stability. Regulatory restrictions on government support are unlikely to prevent timely intervention in exceptional circumstances. The bulk of funding comes from insurance companies, and under the current framework, Dutch citizens must have healthcare insurance.

### Socio-Political Implications of Default: 'Moderate'

It is Fitch's view that a default of a Dutch hospital would imply bankruptcy, resulting in services being transferred to other neighbouring hospitals. This is due to a rule that residents need to have access to an emergency centre within 45 minutes once the call has been made, leading to minor disruption in the long run.

GHZ is the only hospital in Midden Holland region with about 250,000 inhabitants. One main location and three border region locations ensure a good market position, with a market share around 75%. GHZ is a reliable and solid partner in the region and as such, it would be difficult to find a substitute. Fitch sees some political consequences to a default by GHZ as local residents cannot be left without an emergency centre.

### Financial Implications of Default: 'Moderate'

In Fitch's view, GHZ's total debt of EUR101 million does not account for a large amount of the Dutch health system. Thus, it should only moderately affect the sector's funding ability. This further considers that about 40% of GHZ's debt is guaranteed by the national healthcare mutual fund (WfZ). However, the most recent default of a hospital in the Netherlands and the ensuing public and political debate underline the sensitivity of the sector.

## STANDALONE CREDIT PROFILE

GHZ's 'a-' SCP reflects a 'Midrange' assessment of revenue defensibility and of operating risk. It also reflects a Fitch-forecast net adjusted debt/EBITDA of 3x in the medium term under our rating case. Our financial analysis is based on GHZ's 2020 annual accounts, which received an



### Revenue Defensibility: 'Midrange'

Demand is assessed as 'Strong'. In common with the rest of the country, demand for emergency care or healthcare needs will continue to grow strongly, because of more expensive treatments but also due to demographics. Demographic growth is a major factor for GHZ's service area as it is developing much faster than the national average and recently the local government has approved building the fifth village near Gouda.

Fitch views GHZ as a key hospital for the Midden Holland region and it as having a good relationship with healthcare insurance companies. Entities such as GHZ generally receive enough funding from insurers, the state and municipalities to cover costs and to break-even. However, this is dependent on the contracts they negotiate annually with insurers, as well as the funding they receive from the state/municipalities not being cut.

Pricing is assessed as 'Midrange'. A change in tariffs from insurers is unlikely to affect demand as these are essential treatments and the regulator controls the tariffs, which rise annually in line with inflation. Revenue from insurers accounted for 89% of operating revenue at end-2020 and 40% of GHZ's revenue under the Health Care Act now comes from a single insurer, VGZ.

### Operating Risk: 'Midrange'

Operating costs are assessed as 'Midrange'. GHZ has well-identified cost drivers and low potential volatility in its main items. It has flexibility over the timing of major life-cycle costs and limited capex is expected over the next five years. Nevertheless, the healthcare sector has a fairly rigid expenditure structure, with staffing costs making up 52% of operating expenses.

Resource management is assessed as 'Midrange'. GHZ has adequate resources and labour, with limited volatility. One of the challenges for the Dutch healthcare sector is ensuring healthcare providers have sufficient medical staffing, in particular specialists. GHZ strives to retain qualified staff by being an innovative and progressive healthcare provider. As it is the largest employer in the region as well as its close proximity to public transport, it is able to attract staff more easily than hospitals in western Netherlands. We do not expect significant cost pressures due to contract renegotiations.

### Financial Profile: 'Stronger'

With a turnover of about EUR247 million, GHZ has posted a profit of between EUR1 million and EUR5million over the past five years, in line with its not-for-profit status. At end-2020, GHZ had total debt of EUR101 million, a EUR10 million reduction on the prior year. At end-2020, net adjusted debt/EBTDA was 3.7x and Fitch expects this to gradually reduce to 3x in its rating case over the next five years.

### DERIVATION SUMMARY

Fitch assesses the SCP at 'a-' by first applying its Revenue-Supported Debt Rating Criteria, followed by our assessment of the three main factors (revenue defensibility, operating risk and financial profile). Fitch subsequently applies its GRE Rating Criteria and based on our 'Weak' assessment of one main rating factors and 'Moderate' assessment of the other three main rating factors under the strength of linkage with and the incentive to support by the Dutch government we arrived at a score of 12.5. This leads to a bottom-up approach with a one-notch uplift to an IDR of 'A' for GHZ.

### SHORT-TERM RATINGS

For GREs that are rated on a bottom-up basis under the Revenue-Supported Debt Criteria, the higher of two Short-Term IDRs mapping to a Long-Term IDR of 'A' will apply, providing the three factors defined in the Short Term Ratings Criteria are met (liquidity profile and debt characteristics assessed as 'Neutral' and a minimum coverage ratio).

### LIQUIDITY AND DEBT STRUCTURE

Healthcare entities in the Netherlands generally have tight liquidity, which is a structural feature of the sector. Fitch therefore applies a low weight to Dutch healthcare entities' liquidity profiles in the final SCP assessment. Fitch assesses GHZ's liquidity profile as weak with a liquidity buffer below 0.33, which is common across other healthcare entities rated by the agency in the Netherlands.



## ISSUER PROFILE

GHZ is the hospital for some 250,000 inhabitants of the Midden Holland region. It is the largest employer in the Gouda region - an important factor for the local government.

## RATING SENSITIVITIES

### FACTORS THAT COULD, INDIVIDUALLY OR COLLECTIVELY, LEAD TO NEGATIVE RATING ACTION/DOWNGRADE:

Net adjusted debt/EBITDA above 4x on a sustained basis or a weakening in the assessment of revenue defensibility or operating risk to 'Weak'.

### FACTORS THAT COULD, INDIVIDUALLY OR COLLECTIVELY, LEAD TO POSITIVE RATING ACTION/UPGRADE:

Net adjusted debt/EBITDA at around 3x on a sustained basis or an improvement in the assessment of revenue defensibility to 'Stronger'.

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## RATING ACTIONS

ENTITY/DEBT	RATING		
Stichting Groene Hart Ziekenhuis	LT IDR	A Rating Outlook Stable	New Rating
•	ST IDR	F1	New Rating
•	LC LT IDR	A Rating Outlook Stable	New Rating
•	LC ST IDR	F1	New Rating

[VIEW ADDITIONAL RATING DETAILS](#)

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### APPLICABLE CRITERIA

[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 23 Feb 2021\) \(including rating assumption sensitivity\)](#)

### ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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Stichting Groene Hart Ziekenhuis

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