

Aug 14, 2018

Bangkok Dusit Medical Services Public Company Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Executive Summary 2Q18 and 6M18 Performance

Bangkok Dusit Medical Services Public Company Limited ("Company") reported consolidated operating income during second quarter of 2018 ("2Q18") of Baht 18,729 million, an increase of 9% yoy. The growth was attributable to an increase in revenue from hospital operations of 10% yoy which driven by strong volume growth from Thai and International patients together with higher price intensity. Upgrading 10 BDMS hub hospitals to be Centers of Excellence and exploring new patient base including insurance patients were the key drivers.

In 2Q18, the Company and its subsidiaries reported EBITDA of Baht 3,860 million, increased by 15% yoy, resulting an increase in EBITDA margin from 19.6% in 2Q17 to 20.6% in 2Q18.

The core profit was Baht 2,043 million, increased by 28% yoy, in 2Q18. However, if including non-recurring items, the net profit decreased by 46% yoy due to Baht 2,195 million gain (net of income tax expenses) on partial sale of investment in Bumrungrad Hospital Public Co., Ltd. ("BH") in 2Q17.

For six-month period ended June 30, 2018 ("6M18"), the consolidated operating income were Baht 38,757 million, an increase of 12% yoy. The growth was attributable to an increase in revenue from hospital operations of 13% yoy which mainly driven by an increase of Thai and international patient volume and an increase in price intensity.

In addition, revenue from sales of goods and food was Baht 1,507 million, increased by 10% yoy, in 6M18 due mainly to an increase in sales of the Medicpharma Co., Ltd. ("Medicpharma"), A.N.B. Laboratories Co., Ltd. ("A.N.B") and Bangkok Save Drug Co., Ltd. ("Save Drug").

The Company and its subsidiaries reported EBITDA of Baht 8,793 million, up 23% yoy, in 6M18. Meanwhile, core profit would be Baht 4,962 million, increased by 39% yoy. If including non-recurring items as previously mentioned, net profit decreased by 14% yoy.

Major Development

Convertible Bonds

On 18 September 2014, Company issued zero coupon convertible bonds ("CB") to investors outside Thailand for Baht 10,000 million due in 2019. On 18 September 2017, the CB holders has exercised the put option totaling Baht 1,560 million, resulting the outstanding principle amount of the CB reduced to Baht 8,440 million.

During 2Q18 to August 2018, the CB holders exercised their conversion rights at Baht 21.045 per share as below table.

Convertible bonds (CB)	Value (THB mm)	Newly issued (Share mm)
CB outstanding before conversion	8,440	
CB holders exercised		
- In 2Q18	1,547	73.5
- In July and Aug 2018	992	47.1
Total	2,539	120.6
CB outstanding after conversion	5,901	

As the result, the Company's paid up capital increased from Baht 1,549 million to Baht 1,561 million while the outstanding principle amount of the CB reduced to Baht 5,901 million.

2Q18 Consolidated Financial Summary

Operating Income			
(THB mm)	2Q18	2Q17	%Chg
Revenues from hospital operations	17,799	16,216	10%
Revenue from sales of goods and food	723	711	2%
Other income	206	217	(5)%
Total Operating Income	18,729	17,144	9%

In 2Q18, total operating income were Baht 18,729 million, an increase of Baht 1,584 million or 9% yoy, primarily due to

- Revenues from hospital operations were Baht 17,799 million, an increase of Baht 1,583 million or 10% yoy. The growth was contributable to an increase in patient volume and increase in price intensity which driven by upgrading 10 BDMS hub hospitals to be Centers of Excellence and exploring new patients base including insurance patients.

Revenues from hospital operations in 2Q18	Chg. (yoy)	% to revenues
Revenues growth from hospital operations	10%	100%
Breakdown by location		
Bangkok & Vicinity	7%	59%
Upcountry	14%	41%
Breakdown by nationality		
Thai	11%	72%
International	7%	28%
Breakdown by type of patients		
Outpatients	10%	46%
Inpatients	9%	54%

Revenue of network hospitals in Bangkok and vicinity grew 7% yoy while revenue of network hospitals in the upcountry grew 14% yoy.

Revenue from Thai patients grew 11% yoy and revenue from international patients grew 7% yoy. Key drivers were mainly from Kuwaitis, Cambodian and Chinese patients.

The revenue proportion between Thai and international patients change from 71%:29% in 2Q17 to 72%:28% in 2Q18. The occupancy rate increased from 58% in 2Q17 to 61% in 2Q18.

Operating Expenses			
(THB mm)	2Q18	2Q17	%Chg
Cost of hospital operations and others	12,429	11,503	8%
Administrative expenses	3,782	3,559	6%
Total Operating Expenses (Including depreciation)	16,210	15,063	8%

In 2Q18, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 16,210 million, an increase of Baht 1,148 million or 8% yoy which grew at the slower pace than total operating income.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 12,429 million, increased by 8% yoy

due mainly to higher expenses from doctors & clinical staffs, medicine and medical supplies given the growth in number of outpatients and inpatients.

- The administrative expenses (including depreciation and amortization) were Baht 3,782 million, increased by 6% yoy due mainly to an increase in non-clinical personnel expenses and repair and maintenance expenses.
- The depreciation and amortization expenses were Baht 1,342 million in 2Q18, increased by 4% yoy due mainly to depreciation and amortization of new network hospitals and partial opening of BDMS Wellness Clinic.

Other Major Items

- Share of income from investments in associated companies were Baht 348 million in 2Q18, decreased of 5% yoy. Share of income from investments in associated companies were mainly from investment in BH of Baht 199 million, increased 1% yoy, and investment in Ramkhamhaeng Hospital Public Co., Ltd. ("RAM") of Baht 127 million, decreased 18% yoy.
- Finance expenses decreased to Baht 294 million in 2Q18 or decreased by 28% yoy as the CB holders exercised their conversion rights of Baht 1,547 million in 2Q18 together with an adjustment in calculating value of convertible bonds in 2Q17.
- Taxes in 2Q18 were Baht 459 million, a decrease from Baht 1,091 million in 2Q17. High taxes in 2Q17 was from partial disposition of investment in BH.

Non-recurring items

During 2Q17, the Company recorded non-recurring items as the Company partially disposed an investment in BH totaling 25.2 million shares for Baht 4,509 million. A pre-tax

gain on sales of investment was Baht 2,880 million. Taxes incurred on the sales were Baht 685 million resulting in the net gain on sales of Baht 2,195 million.

After this transaction, the percentage of ownership was reduced from 23.95% to 20.50% of BH's issued and paid-up capital.

Profitability Analysis

(THB mm)	2Q18	2Q17	%Chg
EBITDA	3,860	3,366	15%
EBITDA margin	20.6%	19.6%	
EBIT *	2,902	2,485	17%
EBIT margin *	15.5%	14.5%	
Core profit	2,043	1,596	28%
Core profit margin	10.9%	9.3%	
Net profit	2,043	3,791	(46)%
Net profit margin	10.9%	22.1%	
Core EPS (THB)	0.13	0.10	28%
EPS (THB)	0.13	0.24	(46)%

* Excluding non-recurring items

Remarks

EBITDA = Total operating income – Total operating expenses (Excluding depreciation and amortization)

EBITDA Margin = EBITDA / Operating income

EBITDA increased from Baht 3,366 million in 2Q17 to Baht 3,860 million in 2Q18 or increased by 15% yoy resulting in an increase in EBITDA margin from 19.6% in 2Q17 to 20.6% in 2Q18.

Core profit was Baht 2,043 million, increased by 28% yoy. As a result, core profit margin increased from 9.3% in 2Q17 to 10.9% in 2Q18. Core EPS was Baht 0.13 per share or increased by 28% yoy.

If including the non-recurring items in 2Q17, net profit decreased by 46% yoy. As a result, net profit margin decreased from 22.1% in 2Q17 to 10.9% in 2Q18. EPS also decreased by 46% yoy.

6M18 Consolidated Financial Summary

Operating Income			
(THB mm)	6M18	6M17	%Chg
Revenues from hospital operations	36,856	32,752	13%
Revenue from sales of goods and food	1,507	1,366	10%
Other income	395	422	(6)%
Total Operating Income	38,757	34,539	12%

In 6M18, total operating income were Baht 38,757 million, an increase of Baht 4,218 million or 12% yoy, primarily due to

- Revenues from hospital operations were Baht 36,856 million, an increase of Baht 4,104 million or 13% yoy, in 6M18. Key growth drivers were from 10 Centers of Excellence and exploring new patients base including insurance patients together with an increase in influenza and outbreaks during 1Q18. In addition, the Company has the Bangkok Emergency Services to timely and efficiently coordinate patients referral in case of accident or patients in critical conditions.

Revenue of network hospitals in Bangkok and vicinity grew 10% yoy while revenue of network hospitals in the upcountry grew 16% yoy in 6M18.

Revenue from Thai patients grew 13% yoy while revenue from international patient grew 10% yoy in 6M18, driven mainly from Kuwaitis, Chinese and Cambodian patients.

The revenue proportion between Thai and international patients was unchanged at 70%:30% in 6M17 and 6M18. The occupancy rate increased from 59% in 6M17 to 66% in 6M18.

Revenues from hospital operations in 6M18	Chg. (yoy)	% to revenues
Revenues growth from hospital operations	13%	100%
Breakdown by location		
Bangkok & Vicinity	10%	58%
Upcountry	16%	42%
Breakdown by nationality		
Thai	13%	70%
International	10%	30%
Breakdown by type of patients		
Outpatients	10%	45%
Inpatients	14%	55%

- Revenues from sales of goods and food were Baht 1,507 million, an increase of 10% yoy, mainly from an increase in sales of Medicpharma, A.N.B. and Save Drug.
- Other income were Baht 395 million, decreased by 6% yoy.

Operating Expenses			
(THB mm)	6M18	6M17	%Chg
Cost of hospital operations and others	25,110	22,934	9%
Administrative expenses	7,498	6,985	7%
Total Operating Expenses	32,608	29,920	9%

In 6M18, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 32,608 million, an increase of Baht 2,689 million or 9% yoy which grew at the slower pace than total operating income.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 25,110 million, increased by 9% yoy. An increase was due mainly to higher expenses from doctors & clinical staffs, medicine and medical supplies given the growth in number of outpatients and inpatients.
- The administrative expenses (including depreciation and amortization) were Baht 7,498 million, increased by 7% yoy, due mainly

to an increase in non-clinical personnel expenses and repair and maintenance expenses.

- The depreciation and amortization expenses were Baht 2,644 million in 6M18, increased by 4% yoy due mainly to depreciation and amortization of new network hospitals and partial opening of BDMS Wellness Clinic.

Other Major Items

- Share of income from investments in associated companies were Baht 716 million in 6M18, increase of 3% yoy driven mainly from investment in BH of Baht 420 million, decreased 4% yoy, and investment in RAM of Baht 262 million, increased 13% yoy.
- Finance expenses decreased to Baht 611 million in 6M18 or decreased by 21% yoy as the CB holders exercised their conversion rights during 2Q18 together with an adjustment in calculating value of convertible bonds in 6M17.
- Tax expenses in 6M18 were Baht 1,107 million, decreased from Baht 1,553 million in 6M17, due mainly to taxes in 6M17 including partially disposition of investment in BH.

Non-recurring items

During 6M17, the Company recorded non-recurring items as the Company partially disposed an investment in BH totaling 25.2 million shares for Baht 4,509 million resulting in the net gain on sale (after tax) of Baht 2,195 million.

Profitability Analysis

(THB mm)	6M18	6M17	%Chg
EBITDA	8,793	7,156	23%
EBITDA margin	22.7%	20.7%	
EBIT *	6,915	5,354	29%
EBIT margin *	17.8%	15.5%	
Core profit	4,962	3,569	39%
Core profit margin	12.8%	10.3%	
Net profit	4,962	5,764	(14)%
Net profit margin	12.8%	16.7%	
Core EPS (THB)	0.32	0.23	39%
EPS (THB)	0.32	0.37	(14)%

* Excluding non-recurring items

Remarks

EBITDA = Total operating income – Total operating expenses (Excluding depreciation and amortization)

EBITDA Margin = EBITDA / Operating income

As previously mentioned EBITDA increased from Baht 7,156 million in 6M17 to Baht 8,793 million in 6M18 or increased by 23% yoy resulting in an EBITDA margin increase from 20.7 % in 6M17 to 22.7% in 6M18.

Core profit was Baht 4,962 million in 6M18, increased by 39% yoy. As a result, core profit margin increased from 10.3% in 6M17 to 12.8% in 6M18. EPS was Baht 0.32 per share or increased by 39% yoy.

If including the non-recurring items in 6M17, net profit decreased by 14% yoy resulting in a decrease of net profit margin from 16.7% in 6M17 to 12.8% in 6M18. EPS also decreased by 14% yoy.

Assets			
(THB mm)	Jun 18	Dec 17	%Chg
Cash & cash equivalents	5,211	5,091	2%
Trade & other receivables	7,135	6,975	2%
Inventories	1,621	1,735	(7)%
Investment in associates	16,006	15,807	1%
Property, premises & equipment	72,295	71,559	1%
Goodwill	17,539	17,539	0%
Other assets	3,842	3,920	(2)%
Total assets	123,649	122,627	1%

The consolidated financial position of the Company and its subsidiaries as of June 30, 2018: The Company and its subsidiaries reported total assets of Baht 123,649 million slightly increased by 1% from December 31, 2017, due mainly to net increase in property, premises and equipment of Baht 735 million.

Liabilities and Equity			
(THB mm)	Jun 18	Dec 17	%Chg
Bank overdrafts and short-term loans	1,040	139	646%
Debentures *	19,586	19,585	0%
Long-term loans *	10,030	10,799	(7)%
Convertible bonds	7,293	8,774	(17)%
Other liabilities	17,052	17,459	(2)%
Total liabilities	55,001	56,756	(3)%
Equity attributable to equity holder of the Company	65,820	63,071	4%
Non-controlling interests	2,828	2,800	1%
Total equity	68,648	65,871	4%

* Including current portion

Total consolidated liabilities as of June 30, 2018 were Baht 55,001 million, which was decreased from December 31, 2017, due mainly to an decrease in CB after exercising conversion rights netted with an increase in bank overdrafts and short-term loans.

Total consolidated shareholders' equity as of June 30, 2018 was Baht 68,648 million, increased

by 4% from December 31, 2017, due mainly from net income during 6M18.

Liquidity and Capital Management

Cash Flow	
(THB mm)	6M18
Net cash from operating activities	6,742
Net cash used in investing activities	(2,986)
Net cash used in financing activities	(3,636)
Net increase in cash and cash equivalents	120
Beginning cash and cash equivalents	5,091
Ending cash and cash equivalents	5,211

For the six-month period ended June 30, 2018, the Company and its subsidiaries had net increase in cash and cash equivalent of Baht 120 million from the beginning balance of Baht 5,091 million. As a result, cash and cash equivalents at the end of period was Baht 5,211 million. Details of cash flow by activities during the period are as follows:-

Net cash flows from operating activities were Baht 6,742 million, resulting mainly from profit during 6M18.

Net cash used in investing activities were Baht 2,986 million. The investing activities during the period were mainly from purchase of property, premises and equipment of Baht 3,181 million from hospital network expansion and development netted with cash received from dividend income of Baht 312 million.

Net cash used in financing activities were Baht 3,636 million mainly from dividend payment of Baht 3,561 million together with repayment of long-term loans from financial institutions of baht 758 million netted with net cash received from short-term loans from financial institutions of Baht 900 million.

Ratios Analysis

Returns (%)	6M18	6M17
Return on Asset (ROA)	8.1	10.2 *
Return on Equity (ROE)	15.4	20.2 *
Liquidity (x)		
Current ratio	1.0	0.7
Quick ratio	0.9	0.6
Assets & Liabilities Management (Days)		
Average Collection Period	34.3	33.8
Average Inventory Period	12.0	11.7
Average Payable Period	33.3	34.8
Leverage & Coverage Ratios (x)		
Interest coverage	14.4	9.3
	Jun-18	Dec-17
Total debt to equity	0.6	0.6
Net debt to equity	0.5	0.5
Net debt to EBITDA	1.9	2.2

* If excluded non-recurring item, ROA and ROE would be 6.3% and 12.5%, respectively.

Remarks

Assets & liabilities management based on 360 days

Interest coverage = EBITDA/Interest expenses

Debt refers to interest bearing debt

Return on assets ("ROA") and return on equity ("ROE") decreased from 6M17 as there was gain from partial disposal of investment in BH in 6M17. If excluding such non-recurring item, ROA and ROE increased from a strong performance in 6M18.

Average collection period increased from 33.8 days in 6M17 to 34.3 days in 6M18. Average inventory period also increased from 11.7 days in 6M17 to 12.0 days in 6M18 while average payable period decreased from 34.8 days in 6M17 to 33.3 days in 6M18.

Interest coverage ratio increased from 9.3x in 6M17 to 14.4x in 6M18 due mainly to a decrease in finance expenses.

Total interest bearing debt to equity and net interest bearing debt to equity were unchanged at 0.6x and 0.5x, respectively, as of December 31, 2017 and June 30, 2018. Net interest bearing

debt to EBITDA decreased from 2.2x as of December 31, 2017 to 1.9x as of June 30, 2018.

The leverage and coverage ratios are well within the financial covenants of the long-term loans and debentures.
