

May, 15 2017

Bangkok Dusit Medical Services Public Company Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Executive Summary

1Q17 Performance

Bangkok Dusit Medical Services Public Company Limited ("Company") reported consolidated operating income during first quarter of 2017 ("1Q17") of Baht 17,395 million, a slightly increase of 1% yoy. The soft revenue growth was due mainly to the decline in number of Thai patients as a result of a significant decline yoy in the influenza and dengue fever cases in Thailand together with an exit from social security program of Paolo Paholyothin Hospital since the beginning of 2017. Meanwhile number of international patients showed recovery trend from 4Q16. However, overall price intensity increased yoy from increasing healthcare inflation, intensity and complexity cases.

Revenue from sales of goods and food were Baht 672 million in 1Q17, decreased by 8% yoy due mainly to a decrease in sales of A.N.B. Laboratories Co., Ltd. ("A.N.B").

In 1Q17, the Company and its subsidiaries reported EBITDA of Baht 3,790 million, decreased by 7% yoy and net profit of Baht 1,974 million, decreased by 18% yoy.

The Company continued our business strategy in upgrading 9 hub hospitals to be Centers of Excellence together with medical cooperation with world-class institutions to upgrade our clinical standard and increasing intensity and complexity cases.

Major Development

(1) Partial disposition of investment in Bumrungrad Hospital Public Company Limited ("BH")

On 28 April 2017, Company disposed the equity investment in BH of 25,189,494 shares or 3.45% of BH's issued and paid-up capital to an institutional investor who is not related to the Company, at the price of Baht 179 per share, receiving total cash of Baht 4,508.92 million. The Company will recognize gain from selling these investments under equity method amounting to approximately Baht 2,198 million (net of income tax expenses). After transaction, BH will remain our associated company with stake in BH reducing from 23.95% to 20.50% of its issued and paid-up capital.

(2) Issuance of Baht 7,000 million senior unsecured debentures

On 8 February 2017, Company issued senior unsecured debenture totaling of Baht 7,000 million for the expansion, investment and general purposes with an average interest rate of 2.84% p.a. and the issue rating of AA-by Tris. The debenture was successfully oversubscribed by investors.

(3) Approved the issuance and offering of debentures in the amount of not exceeding Baht 40,000 million and increase the Company's registered capital under the General Mandate

On 12 April 2017, the Shareholders' Annual General Meeting approved the issuance and

offering of debentures in the amount of not exceeding Baht 40,000 million.

Moreover, the Shareholders also approved an increase the Company's registered capital under General Mandate in the amount of Baht 154,909,565.40 from the current registered capital of Baht 1,603,314,001.80 to the new registered capital of Baht 1,758,223,567.20 by issuing 1,549,095,654 new ordinary shares at par value of THB 0.10 per share and approved the allocation of newly issued ordinary shares to public offering or private placement in aggregate not exceeding 5% of the Company's paid-up capital.

1Q17 Consolidated Financial Summary

Operating Income			
(THB mm)	1Q17	1Q16	%Chg
Revenues from hospital operations	16,535	16,406	1%
Revenue from sales of goods and food	672	727	(8)%
Other income	188	164	14%
Total Operating Income	17,395	17,297	1%

In 1Q17, total operating income were Baht 17,395 million, an increase of Baht 98 million or 1% yoy, primarily due to

- Revenues from hospital operations were Baht 16,535 million, an increase of Baht 129 million or 1% yoy. The growth was contributable to an increasing healthcare inflation, intensity and complexity cases together with the consolidation of Paolo Kaset Hospital since January 2017. Key growth driver was from revenue of network hospitals in the upcountry.

However, the soft revenue growth was due mainly to the decline in number of Thai patients as a result of a significant decline yoy in influenza and dengue fever cases in Thailand. According to Department of Disease Control,

Ministry of Public Health of Thailand, there are greater decline in the influenza cases in Bangkok and vicinity than in upcountry resulting in greater impact to our revenue of network hospitals in the Bangkok and vicinity. The decline in number of Thai patients was also impacted from an exit from social security program of Paolo Paholyothin Hospital since the beginning of 2017.

For international patients, the revenue growth was 4% yoy and recovered from 4Q16. Key drivers were mainly from Chinese, European and expatriate patients.

The revenue proportion between Thai and international patients changed from 69%:31% in 1Q16 to 67%:33% in 1Q17.

Revenues from hospital operations	Chg. (yoy)	% to revenue
Revenues growth from hospital operations	1%	100%
Breakdown by location		
Bangkok & Vicinity	(2)%	58%
Upcountry	7%	42%
Breakdown by nationality		
Thai	Flat	67%
International	4%	33%
Breakdown by type of patients		
Outpatients	5%	46%
Inpatients	(2)%	54%

- Revenues from sales of goods and food were Baht 672 million in 1Q17, decreased by 8% yoy due mainly to a decrease in sales of A.N.B.
- Other incomes were Baht 188 million in 1Q17, increased by 14% yoy.

Operating Expenses			
(THB mm)	1Q17	1Q16	%Chg
Cost of hospital operations and others	11,431	11,101	3%
Administrative expenses	3,426	3,271	5%
Total Operating Expenses (Including depreciation)	14,857	14,372	3%

In 1Q17, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 14,857 million, an increase of Baht 486 million or 3% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 11,431 million, increased by 3% yoy. An increase was due mainly to rising in doctor and clinical staffs expenses as a result of an increase in newly recruited specialist doctors both full-time and part-time and clinical staffs to accommodate the network expansion and opening of new outreach clinic at Ranong province and Khao Lak, Phang Nga province to strengthening referral network in Southern group.
- The administrative expenses (including depreciation and amortization) were Baht 3,426 million, increased by 5% yoy due mainly to an increase in non-clinical personnel expenses as a result of an increase in newly recruited personnel in preparation for opening of new network hospitals namely Paolo Kaset, Bangkok Hospital Surat, new factory of The Medicpharma Co., Ltd. and opening of new branches of Bangkok Save Drug Co., Ltd. However, the Company realize an importance of managing manpower going forward adhere to the growth and expansion plan without an impact on patient safety and standard.
- The depreciation and amortization expenses were Baht 1,252 million in 1Q17, increased by 9% yoy due mainly to depreciation and amortization of new network hospitals.

Other Major Items

- Share of income from investments in associated companies were Baht 324 million in 1Q17, a decrease of Baht 12 million or 4% yoy. Share of income from investments in associated companies were mainly from share of income from investment in BH of Baht 241

million, increased by 3% yoy together with investment in Ramkhamhaeng Hospital Public Co., Ltd. of Baht 76 million, decreased by 21% yoy.

- Finance expenses increased to Baht 363 million in 1Q17 or increased by 70% yoy due mainly to the adjustment in calculating the expected convertible bonds redemption together with an issuance of debenture of Baht 7,000 million.
- Taxes in 1Q17 were Baht 462 million, a decrease from Baht 563 million in 1Q16, due mainly to a decrease in pre-tax profit.

Profitability Analysis

(THB mm)	1Q17	1Q16	%Chg
EBITDA	3,790	4,077	(7)%
EBITDA margin	21.8%	23.6%	
EBIT	2,869	3,272	(12)%
EBIT margin	16.5%	18.9%	
Net profit	1,974	2,406	(18)%
Net profit margin	11.3%	13.9%	
EPS (THB)	0.13	0.16	(18)%

Remarks

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

EBITDA Margin = EBITDA / Operating income

EBITDA decreased from Baht 4,077 million in 1Q16 to Baht 3,790 million in 1Q17 or decreased by 7% yoy. EBITDA margin also decreased from 23.6% in 1Q16 to 21.8% in 1Q17.

Net profit was Baht 1,974 million, decreased by 18% yoy. As a result, net profit margin decreased from 13.9% in 1Q16 to 11.3% in 1Q17. EPS was Baht 0.13 per share or decreased by 18% yoy.

Assets			
(THB mm)	Mar 17	Dec 16	%Chg
Cash & cash equivalents	5,890	4,217	40%
Short-term investments	549	548	0%
Trade & other receivables	6,105	6,033	1%
Inventories	1,436	1,516	(5)%
Investment in associates	16,825	16,401	3%
Property, premises & equipment	67,960	56,164	21%
Goodwill	17,545	16,932	4%
Other assets	3,954	5,129	(23)%
Total assets	120,263	106,939	12%

The consolidated financial position of the Company and its subsidiaries as of March 31, 2017: The Company and its subsidiaries reported total assets of Baht 120,263 million increased by 12% from December 31, 2016, due mainly to net increase in property, premises and equipment of Baht 11,796 million mainly from transfer of ownership of the land and building of Nai Lert Park project, expansion of our network hospitals both existing hospitals and new hospitals namely Paolo Kaset Hospital, Bangkok Hospital Surat and Bangkok Hospital Chiangmai together with upgrading of 9 hub hospitals to be Centers of Excellence and an increase in cash and cash equivalents of Baht 1,674 million.

Liabilities and Equity			
(THB mm)	Mar 17	Dec 16	%Chg
Debentures *	19,582	12,589	56%
Long-term loans *	7,304	7,705	(5)%
Convertible debentures	10,014	9,874	1%
Other liabilities	23,117	18,467	25%
Total liabilities	60,017	48,635	23%
Equity attributable to equity holder of the Company	57,696	55,719	4%
Non-controlling interests	2,550	2,586	(1)%
Total equity	60,246	58,305	3%

* Including current portion

Total consolidated liabilities as of March 31, 2017 were Baht 60,017 million, which was increased from December 31, 2016, due mainly to an increase in trade and other payables of Baht 7,533 million mainly from the remaining payment of Baht 7,720 million for purchasing land and building of Nei Lert Park project which will be paid in May 2017 together with an issuance of debentures of Baht 7,000 million netted with a decrease in short-term loans from financial institutions of Baht 1,500 million and accrual expenses of Baht 1,034 million.

Total consolidated shareholders' equity as of March 31, 2017 was Baht 60,246 million, increased by 3% from December 31, 2016, due mainly from net income during 2016.

Liquidity and Capital Management

Cash Flow	
(THB mm)	Mar 17
Net cash from operating activities	1,234
Net cash used in investing activities	(4,650)
Net cash from financing activities	5,089
Net increase in cash and cash equivalents	1,674
Beginning cash and cash equivalents	4,217
Ending cash and cash equivalents	5,890

For the three-month period ended March 31, 2017, the Company and its subsidiaries had net increase in cash and cash equivalent of Baht 1,674 million from the beginning balance of Baht 4,217 million. As a result, cash and cash equivalents at the end of period was Baht 5,890 million. Details of cash flow by activities during the period are as follows:-

Net cash flows from operating activities were Baht 1,234 million, resulting mainly from profit during 1Q17.

Net cash used in investing activities were Baht 4,650 million. The investing activities during the

period were mainly from purchase of property, premises and equipment for Baht 3,250 million and purchase of investments in subsidiaries, associates and other company of Baht 1,340 million due mainly to acquisitions in Mayo Polyclinic Co., Ltd. or Mayo Hospital which currently changed to Paolo Kaset Hospital.

Net cash from in financing activities were Baht 5,089 million comprising mainly from issuance of debenture of Baht 7,000 million and cash received from short-term loans from financial institutions of Baht 2,810 million netted with repayment of short-term loans from financial institutions of Baht 4,308 million.

Ratios Analysis		
Returns (%)	1Q17	1Q16
Return on Asset	6.9	9.4
Return on Equity	13.9	17.7
Liquidity (x)		
Current ratio	1.0*	1.0
Quick ratio	0.9*	0.9
Assets & Liabilities Management (Days)		
Average Collection Period	33.8	36.8
Average Inventory Period	11.6	10.1
Average Payable Period	35.1*	37.8
Leverage & Coverage Ratios (x)		
Interest coverage	10.4	19.1
	Mar-17	Dec-16
Total debt to equity	0.6	0.5
Net debt to equity	0.5	0.5
Net debt to EBITDA	2.1	1.9

Remark

- * Excluding the remaining payment of land and buildings of Nai Lert Park project of Baht 7,720 million
- Assets & Liabilities Management based on 360 days
- Interest coverage = EBITDA/Interest Expenses
- Debt refers to interest bearing debt

Return on assets and return on equity decreased from 1Q16 as a result of slower growth in 1Q17 together with an increase in property, premises and equipment to accommodate expansion plan and Company strategy.

Current ratio and quick ratio in 1Q17 remained unchanged from 1Q16.

Average collection period and average payable period decreased from 36.8 days and 37.8 days in 1Q16 to 33.8 days and 35.1 days in 1Q17 respectively while average inventory period increased from 10.1 days in 1Q16 to 11.6 days in 1Q17.

Interest coverage ratio decreased from 19.1x in 1Q16 to 10.4x in 1Q17 due mainly to an increase in finance expenses as a results of the adjustment in calculating the expected convertible bonds redemption together with an issuance of debenture during the quarter.

Total interest bearing debt to equity increased from 0.5x as of December 31, 2016 to 0.6x as of March 31, 2017 while net interest bearing debt to equity remained unchanged at 0.5x as of December 31, 2016 and as of March 31, 2017. Net interest bearing debt to EBITDA increased from 1.9x as of December 31, 2016 to 2.1x as of March 31, 2017.

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