

Nov 13, 2015

Bangkok Dusit Medical Services Public Company Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Executive Summary

3Q15 and 9M15 Performance

Bangkok Dusit Medical Services Public Company Limited ("Company") reported consolidated operating income during third quarter of 2015 ("3Q15") of Baht 16,203 million, an increase of 13% yoy. The growth was attributable to an increase in revenue from hospital operations of 11% yoy which was mainly driven by an increase in number of both outpatients and inpatients together with an increase in healthcare inflation and patient intensity.

Revenue from hospital operations was from existing hospitals growth of 6% yoy and the 14 new network hospitals^{1/} growth of 5% yoy. Revenue of network hospitals in Bangkok and vicinity grew 6% yoy and revenue of network hospitals in the upcountry grew 20% yoy.

In addition, revenue from sales of goods and food were Baht 701 million, an increased by 65% yoy due mainly to the consolidation of Bangkok Save Drug Co., Ltd. ("Save Drug").

The Company and its subsidiaries reported EBITDA of Baht 3,497 million, increased by 9% yoy. However, due to an increase in depreciation and amortization expenses from the new network hospitals together with an increase in finance expenses, as a result, the Company and

its subsidiaries reported net profit of Baht 1,879 million, slightly increased by 2% yoy. If including non-recurring items totaling Baht 209 million in 3Q15 and Baht 89 million in 3Q14, net profit was Baht 2,807 million or increased by 8% yoy.

For nine-month period ended September 30, 2015 ("9M15"), the consolidated operating income were Baht 46,804 million, an increase of 13% yoy. The growth was attributable to an increase in revenue from hospital operations of 11% yoy which mainly driven by an increase in number of both outpatients and inpatients due to an expansion of our network hospitals together with an increase in healthcare inflation and patient intensity.

Revenue from hospital operations was from existing hospitals growth of 5% yoy while the remaining growth was from the 14 new network hospitals. Revenue of network hospitals in Bangkok and vicinity grew 7% yoy and revenue of network hospitals in the upcountry grew 17% yoy.

In addition, revenue from sales of goods and food was Baht 1,949 million, increased by 53% yoy due mainly to the consolidation of Save Drug.

The Company and its subsidiaries reported EBITDA of Baht 10,317 million, increased by 10% yoy. Consequently, the Company and its subsidiaries reported net profit of Baht 5,659 million, increased by 5% yoy. If including non-recurring items totaling Baht 209 million in 9M15 and Baht 89 million in 9M14, net profit was Baht 5,868 million or increased by 7% yoy.

^{1/} 14 new network hospitals, become part of BDMS less than 2 years, are consisted of the following hospitals:- Samitivej Thonburi, Bangkok Phitsanulok, Bangkok Chiangmai, Sanamchan, Thepakorn, Phuket International, Bangkok Khon Kaen, Royal Phnom Penh, Bangkok Chinatown, Muang Petch, Sri Rayong, Dibuk, Samitivej Chonburi and Muangraj

Major Development in 3Q15

1. Affirm the Company rating and senior unsecured debenture rating at AA- by Tris Rating

In August 2015, Tris Rating started annual review of the Company operation and on October 27, 2015, Tris Rating affirmed the Company and senior unsecured debenture ratings at AA- with stable outlook. The ratings reflect Company's leading market position as the largest private hospital operator in Thailand, our extensive hospital network, sound operating performance and balance sheet, as well as our experienced management team and capable physicians.

2. "Very Good" Corporate Governance scoring

Company	Range Number of Logo	Description
BDMS		Very Good

The Company has received "Very Good" recognition level of Corporate Governance (CG) scoring from the listed company assessment by the Thai Institute of Directors Association (IOD) in 2015.

3. Accreditation of Bangkok Hospital Chiangmai by Joint Commission International (JCI)

On August 29, 2015, Bangkok Hospital Chiangmai ("BCM") was accredited by JCI, United States-based organization, for patient safety and quality. In this regard, BCM is our 15th hospital in our network that received JCI accreditation.

4. Acquisition of the entire business of G. Wasupol Co., Ltd. (Muangraj Hospital)

On September 1, 2015, Bangkok Hospital Muangraj Co., Ltd., subsidiary company, has entered into the Entire Business Transfer of G. Wasupol Co., Ltd. (Muangraj Hospital), a 125-

bed private hospital in Ratchaburi province. Cash paid for the transaction is Baht 1,427 million with transferring of liabilities not more than Baht 47 million.

3Q15 Consolidated Financial Summary

Operating Income			
(THB mm)	3Q15	3Q14	%Chg
Revenues from hospital operations	15,343	13,832	11%
Revenue from sales of goods and food	701	424	65%
Other income *	158	132	20%
Total Operating Income	16,203	14,388	13%

* Excluding non-recurring items

In 3Q15, total operating income were Baht 16,203 million, an increase of Baht 1,815 million or 13% yoy, primarily due to

- Revenues from hospital operations were Baht 15,343 million, an increase of Baht 1,512 million or 11% yoy. The growth was contributable to an increase in number of outpatients and inpatients across our network hospitals together with patient ward renovation, an increase in patient referral and the new network hospitals. Existing hospitals grew approximately 6% yoy while the remaining growth was from the 14 new network hospitals. Revenue of network hospitals in Bangkok and vicinity grew 6% yoy while revenue of network hospitals in the upcountry grew 20% yoy. During 3Q15, Thai and international patients grew 10% and 14% yoy respectively resulting in the revenue proportion between Thai and international patients slightly changed from 74%:26% in 3Q14 to 73%:27% in 3Q15. From type of patient perspectives, outpatient revenues grew by 10% yoy while the inpatient revenues increased by 12% yoy.

- Revenues from sales of goods and food were Baht 701 million, an increase by 65% yoy, mainly from the consolidation of Save Drug since 4Q14.
- Other incomes were Baht 158 million, an increased by 20% yoy.

Operating Expenses

(THB mm)	3Q15	3Q14	%Chg
Cost of hospital operations and others	10,459	9,193	14%
Administrative expenses *	3,353	2,898	16%
Total Operating Expenses	13,812	12,090	14%

* Excluding non-recurring items

In 3Q15, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 13,812 million, an increase of Baht 1,722 million or 14% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 10,459 million, an increased by 14% yoy. Cost of hospital operations and others increased due to an increase in depreciation and amortization expenses of the new network hospitals. If excluding depreciation and amortization expenses, cost of hospital operations and others would grow in line with the operating income.
- The administrative expenses (including depreciation and amortization) were Baht 3,353 million, an increased by 16% yoy, due mainly to an increase in repair and maintenance expenses, marketing expenses and other administrative expenses.
- The depreciation and amortization expenses were Baht 1,106 million in 3Q15, an increased by 22% yoy due mainly to depreciation and amortization of new network hospitals.

Other Major Items

- Share of income from investments in associated companies were Baht 327 million in 3Q15, an increase of Baht 58 million or 22% yoy. Share of income from investments in associated companies were mainly from share of income from investment in Bumrungrad Hospital Public Co., Ltd. ("BH") of Baht 202 million together with investment in Ramkhamhaeng Hospital Public Co., Ltd ("RAM") of Baht 110 million.
- Finance expenses increased to Baht 289 million or increased by 27% yoy due mainly to an issuance of convertible bonds, increase in interest expenses of Baht 4,000 million debentures issued in 2014 and the Company has entered into the swap contract that the interest saving was already recorded in the prior period.
- Taxes in 3Q15 were Baht 460 million, a slightly increase from Baht 458 million in 3Q14.

Non-Recurring Items

During 3Q15, the Company and its subsidiaries recorded non-recurring items of totaling Baht 209 million from gain on fair value adjustments of investment in relation to the Entire Business transfer of G. Wasupol Co., Ltd. which the Company's subsidiary previously held for 25.8%.

During 3Q14, the Company and its subsidiaries recorded non-recurring items of totaling Baht 89 million from the following items:-

1. Other income:- Gain on disposal of land not used in operation of about Baht 95 million
2. Administrative expenses:- The impairment of investment in Royal Rattanak Medical Services Co., Ltd. ("RRH") of Baht 91 million as the Company decided to cease the operation of RRH and transferred the business to our new network hospital namely Royal Phnom Penh Hospital.

3. Share of income from investments in associated companies:- share of income from investment in RAM which RAM recorded dividend income received from Sanamchan Hospital Co., Ltd ("SNC") of Baht 85 million as SNC paid to its shareholders in relation to the Entire Business Transfer.

Profitability Analysis			
(THB mm)	3Q15	3Q14	%Chg
EBITDA	3,497	3,208	9%
EBITDA margin	21.6%	22.3%	
EBIT *	2,731	2,579	6%
EBIT margin *	16.9%	17.9%	
Net profit *	1,879	1,839	2%
Net profit margin *	11.6%	12.8%	
Net profit	2,087	1,928	8%
Net profit margin	12.9%	13.4%	
(THB)			
Basic earnings per share *	0.12	0.12	2%
Basic earnings per share	0.13	0.12	8%

* 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 3,208 in 3Q14 to Baht 3,497 million in 3Q15 or increased by 9% yoy. However, EBITDA margin decreased from 22.3% in 3Q14 to 21.6% in 3Q15.

Net profit was Baht 1,879 million in 3Q15, slightly increased by 2% yoy. However, net profit margin decreased from 12.8% in 3Q14 to 11.6% in 3Q15. Basic earnings per share was Baht 0.12 per share or slightly increased by 2% yoy.

If including the non-recurring items, net profit was Baht 2,087 million, increased by 8% yoy. However, net profit margin decreased from 13.4% in 3Q14 to 12.9% in 3Q15. Basic earnings per share was Baht 0.13 per share or increased by 8% yoy.

9M15 Consolidated Financial Summary

Operating Income			
(THB mm)	9M15	9M14	%Chg
Revenues from hospital operations	44,306	39,910	11%
Revenue from sales of goods and food	1,949	1,277	53%
Other income *	549	415	32%
Total Operating Income	46,804	41,602	13%

* Excluding non-recurring items

In 9M15, total operating income were Baht 46,804 million, an increase of Baht 5,201 million or 13% from 9M14, primarily due to

- Revenues from hospital operations were Baht 44,306 million, an increase of Baht 4,396 million or 11% from 9M14. The growth was contributable to an increase in number of outpatients and inpatients across our network hospitals together with hospital network expansion, patient ward expansion and renovation, an increase in patient referral and qualified clinical staffs and specialist doctors. Existing hospitals grew approximately 5% yoy while the remaining growth was from the 14 new network hospitals. Revenue of network hospitals in Bangkok and vicinity grew 7% yoy while revenue of network hospitals in the upcountry grew 17% yoy. During 9M15, Thai and international patients grew 9% and 15% yoy respectively resulting in the revenue proportion between Thai and international patients changed from 72%:28% in 9M14 to 71%:29% in 9M15. From type of patient perspectives, outpatient revenues grew by 11% yoy while the inpatient revenues increased by 10% yoy.
- Revenues from sales of goods and food were Baht 1,949 million, an increase by 53% yoy, mainly from the consolidation of Save Drug since 4Q14.

- Other incomes were Baht 549 million, increased by 32% yoy mainly from Phyathai 1 Hospital Co., Ltd., our subsidiary, income tax refund for Baht 57 million from The Revenue Department in 1Q15.

Operating Expenses

(THB mm)	9M15	9M14	%Chg
Cost of hospital operations and others	30,190	26,588	14%
Administrative expenses *	9,520	8,272	15%
Total Operating Expenses	39,710	34,860	14%

* Excluding non-recurring items

In 9M15, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 39,710 million, an increase of Baht 4,849 million or 14% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 30,190 million, increased by 14% yoy. Cost of hospital operations and others increased mainly an increase in depreciation and amortization expenses of the new network hospitals and the consolidation of cost of Save Drug.
- The administrative expenses (including depreciation and amortization) were Baht 9,520 million, increased by 15% yoy, due mainly to an increase in repair and maintenance expenses, marketing expenses and other administrative expenses.
- The depreciation and amortization expenses were Baht 3,223 million in 9M15, increase by 22% yoy due mainly to depreciation and amortization of new network hospitals.

Other Major Items

- Share of income from investments in associated companies were Baht 966 million in 9M15, an increase of Baht 211 million or 28% yoy. Share of income from investments in associated companies were mainly from

investment in BH of Baht 639 million together with investment in RAM of Baht 294 million.

- Finance expenses increased to Baht 850 million or increased by 24% yoy due to an issuance of convertible bonds and increase in interest expenses of Baht 4,000 million debentures issued in 2014 and the Company has entered into the swap contract that the interest saving was already recorded in the prior period.
- Tax expenses in 9M15 were Baht 1,357 million, an increase from Baht 1,235 million in 9M14, due mainly to an increase in pre-tax profit together with an increase in non-taxable expenses and an expiration of tax privileges of The Medic Pharma Co., Ltd, our subsidiary, from The Board of Investment of Thailand.

Non-Recurring Items

During 3Q15, the Company and its subsidiaries recorded non-recurring items of totaling Baht 209 million from gain on fair value adjustments of investment in relation to the Entire Business transfer of G. Wasupol Co., Ltd. which the Company's subsidiary previously held for 25.8%.

During 3Q14, the Company and its subsidiaries recorded non-recurring items of totaling Baht 89 million as previously mentioned.

Profitability Analysis

(THB mm)	9M15	9M14	%Chg
EBITDA	10,317	9,383	10%
EBITDA margin	22.0%	22.6%	
EBIT *	8,112	7,551	7%
EBIT margin *	17.3%	18.2%	

* Excluding non-recurring items

Remarks

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

EBITDA Margin = EBITDA / Operating income

Profitability Analysis

(THB mm)	9M15	9M14	%Chg
Net profit *	5,659	5,415	5%
Net profit margin *	12.1%	13.0%	
Net profit	5,868	5,504	7%
Net profit margin	12.5%	13.2%	
(THB)			
Basic earnings per share *	0.37	0.35	5%
Basic earnings per share	0.38	0.36	7%

* Excluding non-recurring items

As previously mentioned EBITDA increased from 9,383 in 9M14 to Baht 10,317 million in 9M15 or increased by 10% yoy. However, EBITDA margin decreased from 22.6% in 9M14 to 22.0% in 9M15.

Net profit was Baht 5,659 million in 9M15; increased by 5% yoy. However, net profit margin decreased from 13.0% in 9M14 to 12.1% in 9M15. Basic earnings per share was Baht 0.37 per share or increased by 5% yoy.

If including the non-recurring items, net profit was Baht 5,868 million, increased by 7% yoy. However, net profit margin decreased from 13.2% in 9M14 to 12.5% in 9M15. Basic earnings per share was Baht 0.38 per share or increased by 7% yoy.

Asset

(THB mm)	Sep 15	Dec 14	%Chg
Cash & cash equivalents	3,560	3,608	(1)%
Short-term investments	155	1,878	(92)%
Trade & other receivables	6,489	5,822	11%
Inventories	1,123	1,111	1%
Investment in associates	14,804	14,183	4%
Property, premises & equipment	49,140	46,935	5%
Goodwill	16,931	16,000	6%
Other assets	3,849	3,833	0%
Total assets	96,051	93,370	3%

The consolidated financial position of the Company and its subsidiaries as of September, 30 2015: The Company and its subsidiaries reported total assets of Baht 96,051 million, increased by 3% from December 31, 2014. During the period, net increase of property, premises and equipment of Baht 2,205 million was due mainly to the purchase of land and medical equipment for both existing and new network hospitals, namely Samitivej Chonburi Hospital, Muangraj Hospital and building under construction of Phuket International Hospital together with an increase of goodwill of Baht 931 million mainly from the acquisition of G. Wasupol Co., Ltd. However, it was offset by a decrease in short-term investment of Baht 1,723 million.

Liabilities and Equity

(THB mm)	Sep 15	Dec 14	%Chg
Debentures *	10,591	11,092	(5)%
Long-term loans *	9,936	10,964	(9)%
Convertible debentures	9,596	9,346	3%
Other liabilities	14,406	12,971	11%
Total liabilities	44,528	44,372	0%
Equity attributable to equity holder of the Company	49,125	46,780	5%
Non-controlling interests	2,398	2,218	8%
Total equity	51,523	48,998	5%

* Including current portion

Total consolidated liabilities as of September 30, 2015 were Baht 44,528 million, which was slightly increased from December 31, 2014 as a result of an issuance of unsecured debenture amounting to Baht 2,000 million netted with the redemption of the maturing debentures of Baht 2,500 million during the period.

Total consolidated shareholders' equity as of September 30, 2015 was Baht 51,523 million, increased by 5% from December 31, 2014. This is due mainly to comprehensive income during

9M15 netted with dividend payment of Baht 3,563 million.

Liquidity and Capital Management

Cash Flow	
<i>(THB mm)</i>	9M15
Net cash from operating activities	8,647
Net cash used in investing activities	(3,654)
Net cash used in financing activities	(5,041)
Net decrease in cash and cash equivalents	(48)
Beginning cash and cash equivalents	3,608
Ending cash and cash equivalents	3,560

For the nine-month period ended September 30, 2015, the Company and its subsidiaries had net decrease in cash and cash equivalent of Baht 48 million from the beginning balance of the cash and cash equivalents of Baht 3,608 million. As a result, cash and cash equivalents at the end of the period was Baht 3,560 million. Details of cash flow by activities during the period are as follows:-

Net cash flows from operating activities were Baht 8,647 million, resulting mainly from profit during 9M15.

Net cash used in investing activities were Baht 3,654 million. The investing activities during the period were mainly from purchase of property, premises and equipment for Baht 4,337 million to expand our existing and new network hospitals, namely Samitivej Chonburi and Muangraj Hospital together with purchase of investment in subsidiaries and associated company of Baht 1,688 million mainly from the acquisition of G. Wasupol Co., Ltd., netted with a decrease in short-term investment of Baht 1,723 million and dividend received of Baht 780 million.

Net cash used in financing activities were Baht 5,041 million comprising mainly from cash received from short-term loans from financial

institutions of Baht 8,251 million and issuance of debentures of Baht 1,998 million, netted with repayment of short-term loans of Baht 8,003 million, repayment of long-term loans from financial institutions of Baht 1,103 million, redemption of maturing debentures of Baht 2,500 million and dividend payment of Baht 3,563 million.

Ratios Analysis		
Returns (%)	9M15	9M14
Return on Asset	8.0	8.8
Return on Equity	15.7	17.3
Liquidity (x)		
Current ratio	0.9	1.2
Quick ratio	0.8	1.2
Assets & Liabilities Management (Days)		
Average Collection Period	35.9	34.0
Average Inventory Period	10.0	9.1
Average Payable Period	39.7	39.4
Leverage & Coverage Ratios (x)		
Interest coverage	12.1	13.6
	Sep-15	Dec-14
Total debt to equity (x)	0.6	0.6
Net debt to equity (x)	0.5	0.6
Net debt to EBITDA (x)	2.0	2.2

Remark

Excluding non-recurring items

Assets & Liabilities Management is calculated based on 360 days

Interest coverage = EBITDA/Interest Expenses

Return on assets and return on equity during 9M15 decreased from 9M14 as a result of an increase in net fixed assets to accommodate our network expansion. Current ratio and quick ratio during 9M15 also decreased from 9M14 as a result of a decrease in cash and cash equivalent as the Company funded the network expansion by cash received from issuance of convertible debentures in 3Q14.

Average collection period slightly increased from 34.0 days in 9M14 to 35.9 days in 9M15.

Interest coverage ratio decreased from 13.6x in 9M14 to 12.1x in 9M15, however, it was still above the required financial covenants of 4.0x. Total debt to equity remains unchanged at 0.6x as of December 31, 2014 and as of September 30, 2015 while net debt to equity slightly decrease from 0.6x as of December 31, 2014 to 0.5x as of September 30, 2015. Net debt to EBITDA decreased from 2.2x as of December 31, 2014 to 2.0x as of September 30, 2015.

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