

Aug 13, 2015

Bangkok Dusit Medical Services Public Company Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Executive Summary

2Q15 and 6M15 Performance

Bangkok Dusit Medical Services Public Company Limited ("Company") reported consolidated operating income during second quarter of 2015 ("2Q15") of Baht 14,853 million, an increase of 13% yoy. The growth was attributable to an increase in revenue from hospital operations of 12% yoy which was mainly driven by an increase in number of both outpatients and inpatients. Such increase in revenue from hospital operations was from existing hospitals growth of 5% yoy while the remaining growth was from 13 new network hospitals^{1/}. Revenue of network hospitals in Bangkok and vicinity grew 7% yoy and revenue of network hospitals in the upcountry grew 18% yoy.

In addition, revenue from sales of goods and food increased 39% yoy due mainly to the consolidation of Bangkok Save Drug Co., Ltd. ("Save Drug").

The Company and its subsidiaries reported EBITDA of Baht 2,949 million, increased by 9% yoy. However, due to an increase in depreciation and amortization expenses of the new network hospitals together with an increase in finance expenses, as a result, the Company and its subsidiaries reported net profit of Baht 1,491 million, slightly decreased by 1% yoy.

For six-month period ended June 30, 2015 ("6M15"), the consolidated operating income were Baht 30,601 million, an increase of 12% 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. Such increase in revenue from hospital operations was from existing hospitals growth of 5% yoy while the remaining growth was from the 13 new network hospitals. Revenue of network hospitals in Bangkok and vicinity grew 8% yoy and revenue of network hospitals in the upcountry grew 15% yoy.

In addition, revenue from sales of goods and food increased 46% yoy due mainly to the consolidation of Save Drug.

The Company and its subsidiaries reported EBITDA of Baht 6,820 million, increased by 10% yoy. Consequently, the Company and its subsidiaries reported net profit of Baht 3,780 million, increased by 6% yoy.

Major Development in 2Q15

1. New network hospitals

- Samitivej Chonburi Hospital

Since June 2015, Samitivej Chonburi Hospital ("SCH") has become our 41st network hospitals. It is a secondary care hospital targeting residents in Chonburi province. SCH has total of 220 structured beds, of which 57 beds are opened during first phase. It offers the high standards of medical treatment with specialized medical

^{1/} 13 new network hospitals are consisted of New hospitals in 2013: Samitivej Thonburi and Bangkok Phitsanulok, in 2014: Bangkok Chiangmai, Sanamchan, Thepakorn, Phuket International, Bangkok Khon Kaen, Royal Phnom Penh and Bangkok Chinatown, and in 2015: Muang Petch, Sri Rayong, Dibuk and Samitivej Chonburi

centers such as Cardiology Center, Orthopedic Center and Pediatric Center.

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

On June 30, 2015, Board of Directors approved the establishment of a new subsidiary under the name of Bangkok Hospital Muangraj Co., Ltd. ("Bangkok Muangraj") to acquire and accept the transfer of the entire business of G. Wasupol Co., Ltd. which is a company operating Muangraj Hospital, a 125-bed private hospital in Ratchaburi province. In this regards, Bangkok Muangraj will pay no more than Baht 1,431 million in cash as well as accept the transfer of all of its liabilities which will not exceed Baht 47 million. The entire business transfer is expected to be completed by September 2015.

3. Establishment of new subsidiary

On June 30, 2015, Board of Directors approved the establishment of a new subsidiary under the name of Bangkok Hospital Chiangrai Co., Ltd. to operate the private hospital in Chiangrai province with registered capital of Baht 100 million and is wholly owned by the Company.

2Q15 Consolidated Financial Summary

Operating Income			
(THB mm)	2Q15	2Q14	%Chg
Revenues from hospital operations	14,117	12,638	12%
Revenue from sales of goods and food	544	392	39%
Other income	191	161	19%
Total Operating Income	14,853	13,191	13%

In 2Q15, total operating income were Baht 14,853 million, an increase of Baht 1,662 million or 13% from 2Q14, primarily due to

- Revenues from hospital operations were Baht 14,117 million, an increase of Baht 1,479 million or 12% from 2Q14. 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 5% yoy while the remaining growth was from the 13 new network hospitals. Revenue of network hospitals in Bangkok and vicinity grew 7% yoy while revenue of network hospitals in the upcountry grew 18% yoy.

During 2Q15, Thai and international patients grew 10% and 14% yoy respectively resulting in the revenue proportion between Thai and international patients slightly changed from 73%:27% in 2Q14 to 72%:28% in 2Q15. From type of patient perspectives, outpatient revenues grew by 12% yoy while the inpatient revenues increased by 10% yoy.

- Revenues from sales of goods and food were Baht 544 million, an increase by 39% yoy, mainly from the consolidation of Save Drug since 4Q14.
- Other incomes were Baht 191 million, an increased by 19% yoy.

Operating Expenses

(THB mm)	2Q15	2Q14	%Chg
Cost of hospital operations and others	9,789	8,614	14%
Administrative expenses	3,182	2,736	16%
Total Operating Expenses	12,971	11,350	14%

In 2Q15, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 12,971 million, an increase of Baht 1,621 million or 14% yoy.

- Cost of hospital operations and others (including depreciation and amortization)

were Baht 9,789 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 and the consolidation of cost of Save Drug. 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 3,182 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 1,066 million in 2Q15, an increased by 23% yoy due mainly to depreciation and amortization of new network hospitals.

Other Major Items

- Share of income from investments in associated companies were Baht 317 million in 2Q15, an increase of Baht 77 million or 32% yoy. Share of income from investments in associated companies in 2Q15 were mainly from share of income from investment in Bumrungrad Hospital Public Co., Ltd. ("BH") of Baht 203 million together with investment in Ramkhamhaeng Hospital Public Co., Ltd. ("RAM") of Baht 102 million.
- Finance expenses increased to Baht 291 million or increased by 35% 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 together with an increase in short-term loan from financial institutions.
- Taxes in 2Q15 were Baht 375 million, an increase from Baht 324 million in 2Q14, 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 in 2014.

Profitability Analysis

(THB mm)	2Q15	2Q14	%Chg
EBITDA	2,949	2,711	9%
EBITDA margin	19.9%	20.6%	
EBIT	2,219	2,108	5%
EBIT margin	14.9%	16.0%	
Net profit	1,491	1,501	(1)%
Net profit margin	10.0%	11.4%	
(THB)			
Basic earnings per share	0.10	0.10	(1)%
<u>Remarks</u>			
EBITDA	= Total operating income – Total operating expenses (Excluding depreciation and amortization)		
EBITDA Margin = EBITDA / Operating income			

As previously mentioned, EBITDA increased from 2,711 in 2Q14 to Baht 2,949 million in 2Q15 or increased by 9% yoy. However, EBITDA margin decreased from 20.6% in 2Q14 to 19.9% in 2Q15.

Net profit was Baht 1,491 million in 2Q15, a slightly decreased by 1% yoy. Net profit margin also decreased from 11.4% in 2Q14 to 10.0% in 2Q15. Basic earnings per share were 0.10 Baht per share or a slightly decreased by 1% yoy.

6M15 Consolidated Financial Summary

Operating Income			
(THB mm)	6M15	6M14	%Chg
Revenues from hospital operations	28,962	26,078	11%
Revenue from sales of goods and food	1,248	853	46%
Other income	391	283	38%
Total Operating Income	30,601	27,214	12%

In 6M15, total operating income were Baht 30,601 million, an increase of Baht 3,386 million or 12% from 6M14, primarily due to

- Revenues from hospital operations were Baht 28,962 million, an increase of Baht 2,884 million or 11% from 6M14. 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 13 new network hospitals. Revenue of network hospitals in Bangkok and vicinity grew 8% yoy while revenue of network hospitals in the upcountry grew 15% yoy.

During 6M15, Thai and international patients grew 6% and 15% yoy respectively resulting in the revenue proportion between Thai and international patients changed from 72%:28% in 6M14 to 70%:30% in 6M15. From type of patient perspectives, outpatient revenues grew by 11% yoy while the inpatient revenues increased by 9% yoy.

- Revenues from sales of goods and food were Baht 1,248 million, an increase by 46% yoy, mainly from the consolidation of Save Drug since 4Q14.
- Other incomes were Baht 391 million, an increased by 38% yoy mainly from Phyathai 1 Hospital Co., Ltd. income tax refund from The Revenue Department of totaling Baht 57 million.

Operating Expenses			
(THB mm)	6M15	6M14	%Chg
Cost of hospital operations and others	19,731	17,395	13%
Administrative expenses	6,167	5,375	15%
Total Operating Expenses	25,898	22,770	14%

In 6M15, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 25,898 million, an increase of Baht 3,128 million or 14% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 19,731 million, an increased by 13% yoy. Cost of hospital operations and others increased mainly from 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 6,167 million, an 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 2,117 million in 6M15, an increase by 22% yoy due mainly to the consolidation of depreciation and amortization of new network hospitals.

Other Major Items

- Share of income from investments in associated companies were Baht 639 million in 6M15, an increase of Baht 153 million or 31% yoy. Share of income from investments in associated companies in 6M15 were mainly from investment in BH of Baht 437 million together with investment in RAM of Baht 184 million.
- Finance expenses increased to Baht 561 million or increased by 23% 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 6M15 were Baht 897 million, an increase from Baht 777 million in 6M14, 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 in 2014.

Profitability Analysis

(THB mm)	6M15	6M14	%Chg
EBITDA	6,820	6,176	10%
EBITDA margin	22.3%	22.7%	
EBIT	5,380	4,973	8%
EBIT margin	17.6%	18.3%	
Net profit	3,780	3,576	6%
Net profit margin	12.4%	13.1%	

(THB)

Basic earnings per share	0.24	0.23	6%
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Remarks

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

EBITDA Margin = EBITDA / Operating income

As previously mentioned EBITDA increased from 6,176 in 6M14 to Baht 6,820 million in 6M15 or increased by 10% yoy. However, EBITDA margin decreased from 22.7% in 6M14 to 22.3% in 6M15.

Net profit was Baht 3,780 million in 6M15, an increase of Baht 204 million, or increased by 6% yoy. However, net profit margin decreased from 13.1% in 6M14 to 12.4% in 6M15. Basic earnings per share were 0.24 Baht per share or increased by 6% yoy.

Asset

(THB mm)	Jun 15	Dec 14	%Chg
Cash & cash equivalents	3,464	3,608	(4)%
Short-term investments	239	1,878	(87)%
Trade & other receivables	6,166	5,822	6%
Inventories	1,101	1,111	(1)%

Asset

(THB mm)	Jun 15	Dec 14	%Chg
Investment in associates	14,859	14,183	5%
Property, premises & equipment	48,339	46,935	3%
Goodwill	16,000	16,000	0%
Other assets	3,828	3,833	0%
Total assets	93,996	93,370	1%

The consolidated financial position of the Company and its subsidiaries as of June, 30 2015: The Company and its subsidiaries reported total assets of Baht 93,996 million, a slightly increased by 1% from December 31, 2014. During the period, property premises and equipment increased for Baht 1,404 million due mainly to the purchase of land and medical equipment for both existing and new network hospitals, namely Samitivej Chonburi Hospital together with building under construction of Phuket International Hospital netted with the depreciation and amortization during the period. However, it was offset by a decrease in short-term investment of Baht 1,638 million.

Liabilities and Equity

(THB mm)	Jun 15	Dec 14	%Chg
Debentures*	10,590	11,092	(5)%
Long-term loans*	10,226	10,964	(7)%
Convertible debentures	9,511	9,346	2%
Other liabilities	14,354	12,970	11%
Total liabilities	44,682	44,372	1%
Equity attributable to equity holder of the Company	47,033	46,780	1%
Non-controlling interests	2,281	2,218	3%
Total equity	49,314	48,998	1%

* Including current portion

Total consolidated liabilities as of June 30, 2015 were Baht 44,682 million, which was slightly increased by 1% 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 June 30, 2015 was Baht 49,314 million, a slightly increased by 1% from December 31, 2014. This is due mainly to comprehensive income during 6M15 netted with dividend payment of Baht 3,563 million.

Liquidity and Capital Management

Cash Flow	
(THB mm)	6M15
Net cash from operating activities	5,791
Net cash used in investing activities	(1,561)
Net cash used in financing activities	(4,374)
Net decrease in cash and cash equivalents	(145)
Beginning cash and cash equivalents	3,608
Ending cash and cash equivalents	3,464

For the six-month period ended June 30, 2015, the Company and its subsidiaries had net decrease in cash and cash equivalent of Baht 145 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 3,464 million. Details of cash flow categorized by activities during the period are as follows:-

Net cash flows from operating activities were Baht 5,791 million, resulting mainly from profit during 6M15.

Net cash used in investing activities were Baht 1,561 million. The investing activities during the period were mainly from purchase of property, premises and equipment for Baht 3,106 million to expand our existing and new network hospitals, namely Samitivej Chonburi, netted with a decrease in short-term investment of Baht 1,638 million.

Net cash used in financing activities were Baht 4,374 million comprising mainly from cash received from short-term loans from financial institutions of Baht 5,863 million and issuance of debentures of Baht 1,998 million, netted with repayment of short-term loans of Baht 5,303 million, repayment of long-term loans from financial institutions of Baht 755 million, redemption of maturing debentures of Baht 2,500 million and dividend payment of Baht 3,563 million.

Ratios Analysis		
Returns (%)	6M15	6M14
Return on Asset	8.1	9.2
Return on Equity	16.1	17.4
Liquidity (x)		
Current ratio	0.9	0.7
Quick ratio	0.8	0.6
Assets & Liabilities Management (Days)		
Average Collection Period	38.4	36.7
Average Inventory Period	10.1	9.0
Average Payable Period	40.0	39.4
Leverage & Coverage Ratios (x)		
Interest coverage	12.2	13.6
	Jun-15	Dec-14
Total debt to equity (x)	0.6	0.6
Net debt to equity (x)	0.6	0.6
Net debt to EBITDA (x)	2.0	2.2

Remark

Assets & Liabilities Management is calculated based on 360 days

Interest coverage = EBITDA/Interest Expenses

Return on assets and return on equity during 6M15 decreased from 6M14 as a result of an increase in net fixed assets to accommodate our network expansion while current ratio and quick ratio during 6M15 increased from 6M14 as a result of an increase in current assets together with a decrease in current liabilities.

Average collection period increased from 36.7 days in 6M14 to 38.4 days in 6M15 due to growth in private health insurance and contract.

Interest coverage ratio decreased from 13.6x in 6M14 to 12.2x in 6M15. However, total debt to equity and net debt to equity remains unchanged at 0.6x as of December 31, 2014 and as of June 30, 2015 while net debt to EBITDA decreased from 2.2x as of December 31, 2014 to 2.0x as of June 30, 2015.

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