

Bumrungrad Hospital PCL.
Management Discussion and Analysis for the third quarter 2010
12 November 2010

Summary

The Company reported Total revenues in 3Q10 of Baht 2,665 million, a 14% increase from 3Q09 Total revenues of Baht 2,337 million. The 3Q10 Reported net profit was Baht 377 million, an 18% increase from 3Q09 Reported net profit of Baht 319 million. Strong performance resulted from increased patient volume caused by a more severe flu season together with volume from pent-up demand overflowing from 2Q10 as patients postponed their medical treatments due to political unrest.

For 9M10, the Company reported Total revenues of Baht 7,529 million, a 9% increase from 9M09 Total revenues of Baht 6,909 million. The 9M10 Reported net profit was Baht 914 million, a 3% decrease from 9M09 Reported net profit of Baht 946 million. Excluding Baht 63 million extraordinary item from loss on the translation adjustment from sales of Asia Renal Care (ARC) Group in 2Q10, the 9M10 net profit was Baht 977 million, a 3% increase from 9M09 net profit.

Details of the management discussion and analysis are as follows.

Profit and Loss Statement

Quarterly operation performance

For 3Q10, the Company reported Revenues from hospital operations of Baht 2,589 million, a 14% increase year over year, compared to Baht 2,270 million in 3Q09. Patient volume growth was driven by a more severe flu season together with volume from pent-up demand overflowing from 2Q10 as patients postponed their medical treatments due to political unrest. Revenue per episode continued to increase but at a slower pace as flu related volumes are less intense. Outpatient service revenues increased by 14% year over year and inpatient service revenues increased by 13% year over year.

Rental income was Baht 32 million in 3Q10, in line with Baht 32 million in 3Q09. Other income declined to Baht 30 million in 3Q10 from Baht 35 million in 3Q09. Total revenues in 3Q10 were Baht 2,665 million, compared to Baht 2,337 million in 3Q09, a 14% increase year over year, in line with growth in Revenues from hospital operations.

In 3Q10, the Company reported Cost of hospital operations of Baht 1,554 million, an 11% increase year over year from Baht 1,397 million in 3Q09. The increase in Cost of hospital operations was lower than the growth in Revenue from hospital operations, attributable to higher patient volume resulting in better asset utilization and benefit from economies of scale. Therefore, gross profit increased by 18% year over year to Baht 1,035 million from Baht 874 million in 3Q09, reflecting higher gross margin at 40.0% in 3Q10 vs. 38.5% in 3Q09.

3Q10 Administrative expenses were Baht 410 million, a 14% increase year over year from Baht 361 million in 3Q09, in line with the increase in Total revenues. The increase was mainly due to increased salary expenses and marketing expenses. As a result of the lower growth of Cost of hospital operations, EBITDA was Baht 659 million in 3Q10, increased by 19% from Baht 555 million in 3Q09. Consequently, EBITDA margin was 24.8% in 3Q10 which increased from 23.8% in 3Q09.

3Q10 Depreciation and amortization was Baht 154 million, higher than the Baht 135 million in 3Q09, as a result of the completion of renovation of inpatient wards together with the new Women Center and Digestive Disease Center. Financing expenses was Baht 18 million in 3Q10, relatively flat from Baht 19 million in 3Q09. The corporate income tax in 3Q10 was Baht 127 million, compared to Baht 102 million in 3Q09, or at the effective tax rate of 25.4% in 3Q10 and 25.3% in 3Q09.

The Company reported Share of income from investments in joint venture and associated companies of Baht 4.4 million in 3Q10, compared to share of profit of Baht 18.9 million in 3Q09. The 3Q10 share of income was attributable to share of income from CDE Trading Company Limited of Baht 5.0 million and share of loss from Bumrungrad International Limited of Baht 0.6 million.

In 3Q10, the Company's share of Bumrungrad International Limited reported loss was Baht 0.6 million compared to its share of income of Baht 18.0 million in 3Q09. The Baht 0.6 million loss in 3Q10 was comprised of (1) Baht 8.4 million in operating profits for the quarter, down from Baht 18.0 million in 3Q09 due to the absence of profit contribution from Asia Renal Care Limited and (2) Baht 9.0 million reclassification of the sale of Asia Renal Care (Thailand) transaction as explained below.

As a result of the above, the Company's 3Q10 Reported net profit was Baht 377 million, an 18% increase year over year from Baht 319 million Reported net profit in 3Q09. Net profit margin was 14.1% in 3Q10, an increase from 13.6% in 3Q09.

For 3Q10, basic EPS was Baht 0.52, an 18% increase year over year from Baht 0.44 in 3Q09. 3Q10 fully diluted EPS was Baht 0.43, a 16% increase year over year from Baht 0.37 in 3Q09.

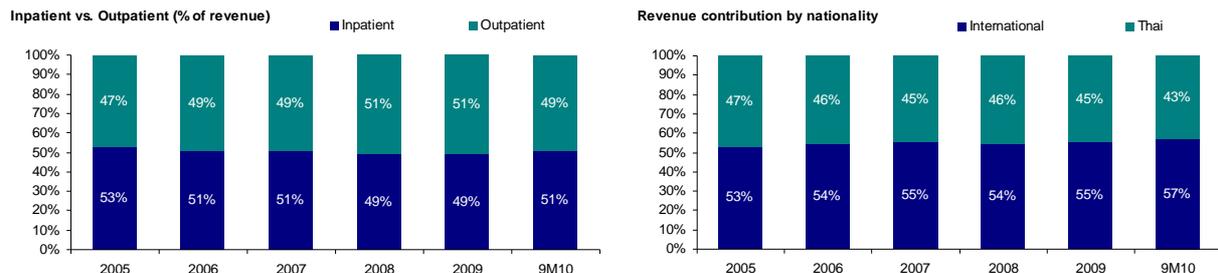
Accounting adjustment: Reclassified items

On 24 February 2010, the Company's Board of Directors Meeting approved the Company to sell all of the shares of Asia Renal Care (Thailand) Co., Ltd. and subsequently on 15 May 2010, the Company signed an agreement to sell the shares to Nephrocare (Thailand) Co., Ltd. subject to the condition precedent. On 19 July 2010, the parties fulfilled the conditions precedent and the transaction was closed, resulting in a gain on sale of investment of approximately Baht 13.0 million and tax expense of Baht 4.0 million. In the 2Q10's financial statement, the Company estimated and recorded Baht 9.0 million after tax gain on sale of Asia Renal Care (Thailand) under Share of income from investment in joint venture and associated companies.

Once the transaction was completed in July, the Company reclassified accounting items in 3Q10 by 1) realizing Baht 13.0 million Gain from sales of investment in joint venture together with 2) deducting estimated gain Baht 9.0 million from Share of income from investment in joint venture and associated companies and 3) recording Baht 4.0 million tax expense from the gain on sales. This accounting reclassification has not affected the earnings in this quarter.

9M10 operation performance

For 9M10, the Company reported Revenues from hospital operations of Baht 7,322 million, a 9% increase year over year from Baht 6,711 million in 9M09. The revenue growth was driven by strong Revenues from hospital operation in 1Q10 and 3Q10. However, this was partially offset by weak performance in 2Q10 due to political unrest. Inpatient service revenues increased by 13% year over year and outpatient service revenues increased by 5% year over year. The revenue contribution by inpatient service was 51% and outpatient service was 49% in 9M10. In terms of revenues by nationality, revenues from international patients were 57% and revenues from Thai patients were 43%.



Rental income was Baht 100 million in 9M10, an increase from Baht 95 million in 9M09. Other income was Baht 95 million in 9M10, a decline from Baht 103 million in 9M09. Total revenues in 9M10 were Baht 7,529 million, compared to Baht 6,909 million in 9M09, a 9% increase year over year, in-line with the increase in Revenues from hospital operation.

In 9M10, the Company reported Cost of hospital operations of Baht 4,430 million, an 8% increase year over year from Baht 4,115 million in 9M09, at a slower pace than growth in Revenues from hospital operation as a result of continuous cost control, coupled with better asset utilization and economies of scale as the hospital saw high volume especially from international patients in 1Q10 and 3Q10. As a result, gross profit was Baht 2,892 million in 9M10, an 11% increase year over year from Baht 2,596 million in 9M09. Consequently, gross profit margin was 39.5% in 9M10, higher than 38.7% in 9M09.

9M10 Administrative expenses were Baht 1,180 million, a 15% increase year over year from Baht 1,024 million in 9M09, higher than the increase in Total revenues. The increase was due to higher salaries from higher bonus accrual in 1Q10, where the bonus level was back at the normal rate with the turn-around of the economy; higher headcount to accommodate increasing volume and higher overtime costs in 2Q10 as the hospital staffed the personnel during the political unrest to prepare for any possible mass casualties; an increase in marketing expense; higher donation expenses from Rak Jai Thai project; and additional expenses related to subsidiaries, Asia Global Research Co., Ltd. (AGR), a clinical research company, which started operations in the second half of 2009 and start-up expenses of Vitechpro, the wholesale business of Vitallife Corporation Limited. As a result, EBITDA was Baht 1,819 million in 9M10, a 7% increase year over year from Baht 1,701 million in 9M09. Consequently, EBITDA margin was 24.2% in 9M10, declined from 24.6% in 9M09.

9M10 Depreciation and amortization was Baht 439 million, higher than Baht 404 million in 9M09 due to the completion of renovation of inpatient wards together with the new Women Center and Digestive Disease Center. Financing expenses decreased to Baht 50 million in 9M10 compared to Baht 61 million in 9M09, as a result of lower loan outstanding from the scheduled repayment of the previous loan, together with lower interest rate from the refinanced loan, where the interest rate was reduced from MLR – 1.25% to MLR – 1.5%. The corporate income tax in 9M10 was Baht 385 million, compared to Baht 339 million in 9M09, or at the effective tax rate of 28.6% in 9M10 and 27.4% in 9M09.

The Company reported Share of loss from investments in joint venture and associated companies of Baht 45 million in 9M10, compared to share of profit of Baht 47 million in 9M09. The 9M10 share of loss was attributable to share of income from CDE Trading Company Limited of Baht 7 million and share of loss from Bumrungrad International Limited of Baht 52 million which was primarily due to Baht 63 million loss on sale of ARC Group in 2Q10.

As a result of the above, the Company's 9M10 Reported net profit was Baht 914 million, a 3% decrease year over year. Excluding an extraordinary item, which was the loss on sale of ARC Group, 9M10's net profit was Baht 977 million, a 3% increase year over year from Reported net profit of Baht 946 million in 9M09. Reported net profit margin was 12.1% in 9M10, while net profit margin excluding the extraordinary item was 13.0%, which was lower than 13.6% in 9M09.

For 9M10, basic EPS was Baht 1.25, a 4% decrease year over year from Baht 1.30 in 9M09. 9M10 fully diluted EPS was Baht 1.05, also a 4% decrease year over year from Baht 1.09 in 9M09.

Income statement (Unit: Baht million)	Year over			Year over		
	3Q10	3Q09	year	9M10	9M09	year
Revenues from Hospital Operations	2,589	2,270	14%	7,322	6,711	9%
Total revenues	2,665	2,337	14%	7,529	6,909	9%
Gross Profit	1,035	874	18%	2,892	2,596	11%
EBITDA	659	555	19%	1,819	1,701	7%
Share of Income from Investments in Joint Venture and Associated Companies	4	19	-77%	-45	47	N.A.
Net Profit	377	319	18%	914	946	-3%
Net profit excluding extraordinary item	377	319	18%	977	946	3%
EPS – Basic	0.52	0.44	18%	1.25	1.30	-4%
EPS – Fully Diluted	0.43	0.37	16%	1.05	1.09	-4%
<i>Gross Profit Margin</i>	40.0%	38.5%		39.5%	38.7%	
<i>EBITDA Margin</i>	24.8%	23.8%		24.2%	24.6%	
<i>Net Profit Margin</i>	14.1%	13.6%		12.1%	13.6%	
<i>Net profit margin excluding extraordinary item</i>	14.1%	13.6%		13.0%	13.6%	

Balance Sheet

As at 30 September 2010, the Company reported Total current assets of Baht 1,658 million, an increase from Baht 1,332 million as at 31 December 2009, primarily because of an increase in Trade accounts receivable to Baht 942 million as at 30 September 2010 from Baht 658 million as at 31 December 2009 as a result of the increase in the Middle East corporate accounts, together with increasing international insurance contracts. Therefore, the collection period increased to 33.4 days as at 30 September 2010 compared to 26.7 days as at 31 December 2009. Total non-current assets slightly increased to Baht 7,342 million as at 30 September 2010 compared to Baht 7,235 million as at 31 December 2009 because of the increase in Property, plant and equipment to Baht 5,849 million as at 30 September 2010 from Baht 5,667 million as at 31 December 2009. This was primarily a result of increase in assets related to the renovation of inpatient wards and renovation of Women Center and Digestive Disease Center. As a result, Total assets increased to Baht 9,000 million as at 30 September 2010 from Baht 8,567 million as at 31 December 2009.

Total liabilities were Baht 3,265 million as at 30 September 2010, an increase from Baht 3,094 million as at 31 December 2009, primarily from an increase in Current liabilities related to operations, such as Accounts payable, Construction and medical equipment payables, Accrued physician fees and Accrued expenses. The interest-bearing debt (short-term loan + long-term loans) slightly increased to Baht 1,680 million as at 30 September 2010 from Baht 1,620 million as at 31 December 2009. With a stable debt position and increased cash balance, together with an increase in Shareholders' equity, net debt to equity slightly decreased to 0.22x as at 30 September 2010 from 0.23x as at 31 December 2009. Because the Company no longer has current portion of long term loans since 1Q10, as the refinanced loan has 2 years grace period, together with decrease in interest expense, the Company's interest coverage ratio significantly improved to 36.4x in 9M10 compared to 24.8x in 2009.

Total shareholders' equity increased to Baht 5,736 million as at 30 September 2010 from Baht 5,473 million as at 31 December 2009, primarily as a result of the Company's 9M10 net profit of Baht 914 million, netted off with dividend payment of Baht 619 million in 9M10. Annualized average return on assets in 9M10 was 13.9% while annualized average return on equity was 21.7% in 9M10.

Unit: Baht million	30-Sep-10	31-Dec-09	Year over year
Total Assets	9,000	8,567	5%
Total Liabilities	3,265	3,094	5%
Total Shareholders' Equity	5,736	5,473	5%
Average Collection Period (days)	33.4	26.7	
Average Inventory Period (days)	12.4	12.5	
Average Payables Period (days)	33.1	33.3	
Net Debt to Equity (x)	0.22	0.23	
	9M10	2009	
Interest Coverage Ratio (x)	36.4	24.8	
Annualized average return on assets (%)	13.9%	14.9%	
Annualized Average Return on Equity (%)	21.7%	24.1%	

Liquidity

The Company's cash flow from operating activities in 9M10 was Baht 1,187 million, stable from Baht 1,184 million in 9M09. Net cash used in investment activities was Baht 569 million in 9M10, compared to Baht 615 million in 9M09. The Company reported net cash flow used in financing activities of Baht 592 million in 9M10, a decrease from Baht 677 million in 9M09, because the Company repaid its long term loan in 9M09 according to the repayment schedule of the previous long-term loan agreement, while the refinanced loan in October 2009 has 2-years grace period. As a result, Cash and cash equivalents at the end of the period was Baht 413 million as at 30 September 2010, an increase from Baht 276 million as at 30 September 2009.

Liquidity ratio as at 30 September 2010 increased to 0.90x compared to 0.80x as at 31 December 2009, as a result of the increase in Cash and cash equivalents and Accounts receivable. Similarly, quick ratio increased to 0.74x as at 30 September 2010, compared to 0.63x as at 31 December 2009.

Unit: Baht million	9M10	9M09
Cash Flow from Operating Activities	1,187	1,184
Cash Flow from Investing Activities	-569	-615
Cash Flow from Financing Activities	-592	-677
Net Increase (Decrease) in cash and cash equivalents	27	-109
Cash and cash Equivalents at end of year	413	276

	30-Sep-10	31-Dec-09
Liquidity Ratio (x)	0.90	0.80
Quick Ratio (x)	0.74	0.63

For additional information made available to the public from time to time, investors and other interested parties may access the information that the Company provides to analysts and others at <http://www.bumrungrad.com/investor/investor.html>