

10 August 2017

Subject: Management Discussion and Analysis for the second quarter 2017 results

To: Directors and Manager
The Stock Exchange of Thailand

Bumrungrad Hospital PCL.
Management Discussion and Analysis for Consolidated 2Q17 results
10 August 2017

Summary

The Company reported Total revenues in 2Q17 of Baht 4,472 million, a 1.5% improvement from 2Q16 revenues of Baht 4,407 million. Net profit for 2Q17 grew 11.9% to Baht 960 million from Baht 858 million in 2Q16, with Net profit margin at 21.5% in 2Q17 compared to 19.5% in 2Q16.

Total revenues for 1H17 decreased to Baht 8,966 million, or 1.5% less than Baht 9,101 million in 1H16. Net profit rose 7.1% to Baht 1,965 million in 1H17 from Baht 1,836 million in 1H16, with Net profit margin at 21.9% in 1H17 compared to 20.2% in 1H16.

Details of the management discussion and analysis follow:

Income statements

Quarterly Operational Performance

The Company reported Revenues from hospital operations of Baht 4,416 million, a 1.8% improvement year-over-year from Baht 4,337 million in 2Q16. This was mostly due to the increase in revenues from Thai and non-Thai patients by 3.7% and 1.5%, respectively. As a result, the revenue contribution from Thai patients in 2Q17 was 36.4% and from non-Thai patients was 63.6%, compared with 35.9% and 64.1%, respectively, for 2Q16.

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 2,519 million for 2Q17, or 1.2% less year-over-year from Baht 2,550 million in 2Q16. This represents a favorable change when compared to the 1.8% growth in Revenues from hospital operations, and contributed to a reduction in the percentage of cost to Revenues from hospital operations to 57.0% in 2Q17 compared with 58.8% in 2Q16. Administrative expenses (including Depreciation and amortization) were Baht 736 million in 2Q17, or 2.9% less than Baht 758 million in 2Q16. EBITDA increased by 9.6% year-over-year to Baht 1,484 million in 2Q17 from Baht 1,354 million in 2Q16, with an EBITDA margin of 33.4% in 2Q17 compared to 30.9% in 2Q16.

Ongoing capital spending contributed to higher 2Q17 Depreciation and amortization of Baht 296 million from Baht 284 million in 2Q16.

Corporate income tax of Baht 217 million in 2Q17 was higher than Baht 187 million in 2Q16. The variance is mostly due to the increase in taxable operating profit.

Basic EPS for 2Q17 of Baht 1.32 was 11.9% more than Baht 1.18 in 2Q16, while 2Q17 Diluted EPS increased at the same rate to Baht 1.11 from Baht 0.99 in 2Q16.

First Half Operational Performance

The Company reported Revenues from hospital operations of Baht 8,852 million, a 1.2% decline year-over-year from Baht 8,955 million in 1H16. This was mostly due to the 1.7% decrease in revenues from non-Thai patients, offset with 1.7% increase in revenues from Thai patients. As a result, the revenue contribution from Thai patients in 1H17 was 35.2% and from non-Thai patients was 64.8%, compared with 34.4% and 65.6%, respectively, for 1H16.

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 5,014 million for 1H17, or 3.9% less year-over-year from Baht 5,217 million in 1H16. This represents a favorable change when compared to the 1.2% decline in Revenues from hospital operations, and contributed to a reduction in the percentage of cost to Revenues from hospital operations to 56.6% in 1H17 compared with 58.3% in 1H16. Administrative expenses (including Depreciation and amortization) were Baht 1,475 million in 1H17, or 3.6% less than Baht 1,531 million in 1H16. EBITDA increased by 5.8% year-over-year to Baht 3,020 million in 1H17 from Baht 2,855 million in 1H16, with an EBITDA margin of 33.9% in 1H17 compared to 31.6% in 1H16.

Ongoing capital spending and accelerated depreciation associated with the campus expansion contributed to higher 1H17 Depreciation and amortization of Baht 592 million from Baht 561 million in 1H16.

Corporate income tax of Baht 437 million in 1H17 was higher than Baht 421 million in 1H16. The variance is mostly due to the increase in taxable operating profit.

Basic EPS for 1H17 of Baht 2.70 was 7.1% more than Baht 2.52 in 1H16, while 1H17 Diluted EPS increased at the same rate to Baht 2.27 from Baht 2.12 in 1H16.

Income statements						
(Unit: Baht million)	2Q17	2Q16	Change	1H17	1H16	Change
Revenues from hospital operations	4,416	4,337	1.8%	8,852	8,955	-1.2%
Total revenues	4,472	4,407	1.5%	8,966	9,101	-1.5%
EBITDA	1,484	1,354	9.6%	3,020	2,855	5.8%
Net profit	960	858	11.9%	1,965	1,836	7.1%
<i>EBITDA margin</i>	33.4%	30.9%		33.9%	31.6%	
<i>Net profit margin</i>	21.5%	19.5%		21.9%	20.2%	

EPS (Unit: Baht)	2Q17	2Q16	Change	1H17	1H16	Change
EPS – Basic	1.32	1.18	11.9%	2.70	2.52	7.1%
EPS – Fully Diluted	1.11	0.99	11.9%	2.27	2.12	7.1%

Statements of financial position

As at 30 June 2017, the Company reported Total current assets of Baht 9,715 million, an increase from Baht 8,803 million as at 31 December 2016. The variance is mostly due to an increase of Baht 1,139 million in Cash, Cash equivalents, and Short-term investments, due to Baht 2,809 million increase in cash from operations, offset with Baht 1,129 million dividend payment and Baht 494 million capital spending in 1H17. Trade receivables were reduced by Baht 240 million, or 14.3%, to Baht 1,441 million as at 30 June 2017 from Baht 1,682 million as at 31 December 2016. The collection period improved to 36.6 days as at 30 June 2017 from 43.8 days as at 31 December 2016, due largely to timing differences associated with collections on certain Middle East accounts.

Total non-current assets decreased to Baht 12,446 million as at 30 June 2017 from Baht 12,527 million as at 31 December 2016, mostly due to a decrease in Property, plant and equipment as a result of a normal level of Depreciation and amortization expense outpacing capital expenditure additions in 1H17, due to the timing of expenditures.

Total current liabilities were Baht 2,339 million as at 30 June 2017, a decrease from Baht 2,358 million as at 31 December 2016. The variance was mostly due to Baht 48 million less in various Accrued expenses, Baht 33 million less in Accrued physician fee and Baht 11 million less in Trade and other payables, offset with Baht 73 million additional Income tax payable associated with the increase in taxable operating profit.

Cash and cash equivalent balances continued to exceed outstanding debt balances, resulting in a net cash versus net debt position as at 30 June 2017. The Company's Interest coverage ratio improved to 34.5x in 1H17 from 23.8x in 1H16, due to higher EBITDA in 1H17 compared to 1H16 and less interest expenses associated with the Baht 1,500 million repayment of the Series 1 debentures in December 2016. Interest expense has been reduced by Baht 9 million and Baht 19 million in 1H17 and 1H16, respectively, for capitalized interest associated with the campus expansion project.

Total shareholders' equity grew to Baht 15,601 million as at 30 June 2017 from Baht 14,788 million as at 31 December 2016. This increase resulted mostly from the Company's 1H17 Net profit of Baht 1,965 million, offset with Baht 1,132 million dividend payment. Average return on assets (ROA) increased to 18.1% in 1H17 from 17.0% in 2016. Average return on equity (ROE) was 25.9% in 1H17, compared to 26.0% in 2016.

Unit: Baht million	30-Jun-17	31-Dec-16	Change
Total assets	22,160	21,330	3.9%
Total liabilities	6,559	6,542	0.3%
Total shareholders' equity	15,601	14,788	5.5%

	1H17	1H16
Interest coverage ratio (x)	34.5*	23.8*
Average collection period (days)	36.6	43.8
Average inventory period (days)	12.0	11.6
Average payables period (days)	28.7	28.0
Net debt to equity (x)	(0.0)	(0.1)
Average return on assets (%)	18.1%	17.0%
Average return on equity (%)	25.9%	26.0%

* After adding back the 1H17 and 1H16 capitalized interest expenses related to the campus expansion.

Cash flow statements

The Company's Net cash flows from operating activities in 1H17 were Baht 2,809 million, compared to Baht 2,331 million in 1H16. This increase was mainly due to Baht 339 million more in working capital, mostly related to Baht 262 million reduction in Trade and other receivables. Net cash flows used in investment activities were Baht 2,299 million in 1H17, compared to Baht 504 million in 1H16. This variance was mainly due to Baht 2,172 million change between Short-term investments and Cash and cash equivalents. The Company reported Net cash flows used in financing activities of Baht 1,231 million in 1H17, compared to Baht 1,171 million in 1H16. As a result of the above, Cash and cash equivalents was Baht 4,439 million as at 30 June 2017, compared to Baht 5,713 million as at 30 June 2016.

The Company's Liquidity ratio as at 30 June 2017 improved to 4.2x from 3.7x as at 31 December 2016, while the Quick ratio as at 30 June 2017 was 2.5x, compared to 2.9x as at 31 December 2016.

Unit: Baht million	1H17	1H16
Net cash flows from operating activities	2,809	2,331
Net cash flows used in investing activities	(2,299)	(504)
Net cash flows used in financing activities	(1,231)	(1,171)
Net (decrease) increase in cash and cash equivalents	(715)	658
Cash and cash equivalents at end of period	4,439	5,713
	30-Jun-17	31-Dec-16
Liquidity ratio (x)	4.2	3.7
Quick ratio (x)	2.5	2.9

Please be informed accordingly.

Yours faithfully,

(Dr. Chanvit Tanhiphat, MD)

Chairman