

Thonburi Healthcare Group PLC.

1Q19 Management Discussion and Analysis

Overview

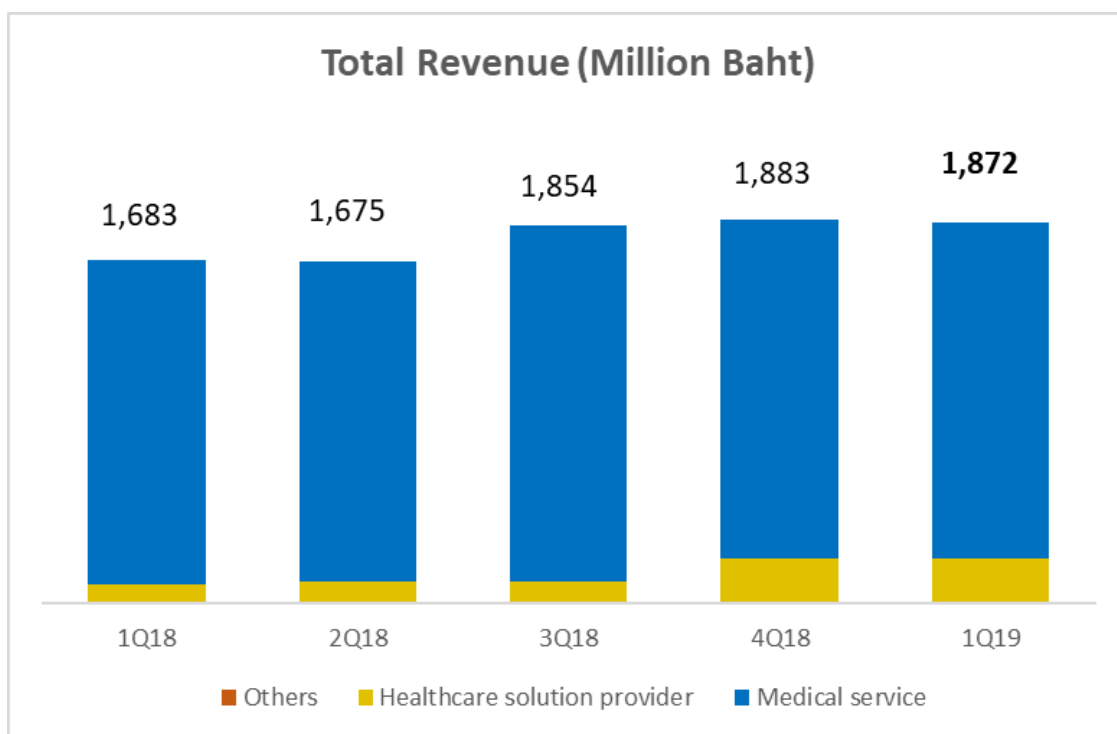
In 1Q19, Thonburi Healthcare Group PLC. (THG) saw revenue growth YoY but flat QoQ. Domestic hospital, which is its core business, grew from the same quarter last year with more services and higher medical intensity. The revenue growth was also from newly open Thonburi Bamrungmuang Hospital, which had its grand opening in January 2019.

Hospital management business dropped YoY, mainly from the decrease in consultancy revenue from overseas clients. Meanwhile, THG continues to study the possibility and negotiate with partners to provide consultancy service for overseas projects. Heart center business grew slightly from Revenue from the existing three Heart Centers grew YoY, compensating one center in a public hospital that its contract ended last year.

Overseas hospitals contributed loss in the initial stage. Welly Hospital in China saw operational improvement with higher patient volume. Ar Yu International Hospital in Myanmar had its grand opening in March 2019, serving OPD and IPD patients. It was well accepted by patients in Myanmar who trust in its international standard and experienced doctors. Both hospitals are expected to see improvement in 2019 onwards.

In 1Q19, Jin Wellbeing County transferred 25 units of active living, continuing from last quarter, generating significant revenue growth. Other parts are under construction and decoration. Jin Wellness Institute is expected to open in 3Q19, and Thonburi Burana Hospital near the end of 3Q19.

Cost of new projects pressured profit in this quarter, namely new hospitals that had started to recognize revenue, and senior living project that the cost increased along with revenue growth. Other expenses, namely depreciation and amortization, staff cost, sales and marketing expenses, increased to support business expansion. THG continued to monitor and control costs and expenses within reasonable level. The company also focused on revenue increase of the new businesses. Moreover, the significant drop of profits was also a result of high base in 1Q18 that has a special profit from disposal of investment and other income.



Key development in 1Q19

1. Grand opening of Ar Yu International Hospital

On 17 March 2019, a grand opening of Ar Yu International Hospital, Yangon, Myanmar, was held. This hospital is under a JV that THG joins with local partners. It is now officially open to serve OPD and IPD patients.

2. Grand opening of Thonburi Bamrungmuang Hospital

On 24 January 2019, a grand opening of Thonburi Bamrungmuang Hospital was held in Bangkok. Initially, the centers that open are Thonburi Diabetic Wound Care, Check Up, Digital Dental, and Aesthetic Center. Other centers, such as Rehab Center and IVF will be in operation later.

Summary of 1Q19 performance compared to 1Q18

Revenue

THG's revenue comprises of revenue from medical service, healthcare solutions provider and other businesses. Total revenue was THB1,872 mn, increasing by 11.2% due to an increase from domestic hospital revenue and revenue recognized from active living unit transfer of Jin Wellbeing County.

Medical Service Business has revenue of THB1,651mn, increasing by 3.6%.

- Domestic hospitals comprise of Thonburi Hospital, Thonburi Hospital 2, Rajyindee Hospital, Thonburi Bamrungmuang Hospital and Thonburi Thungsong Hospital (under construction). Total revenue was THB1,486mn, increasing by 6.1%, mainly from Thonburi Bamrungmuang Hospital that was opened in 1Q19.
- Hospital management business revenue was THB109mn, decreasing by 21.0%, mainly from revenue decrease of THB20mn from overseas consultancy service. In 1Q19, there was no overseas service yet.
- Excellence center business revenue was THB56mn, increasing by 1.8% mainly from service of Heart Center at Phthalung Hospital that could compensate with another site in a public hospital whose contract was not continued.

Healthcare Solutions Provider business

This business comprises of senior living project, dental equipment and supplies, chained drug stores and home healthcare. The revenue was THB218mn, increasing by more than 100%, from revenue recognized from 25 active living unit transfer of Jin Wellbeing County. Also, revenue grew from dental equipment turnkey service provided for Faculty of Dentistry.

Other businesses

They comprise of hospital software development business and project development for healthcare service. The revenue was THB3mn, decreasing by 50.0% because most revenue already occurred last quarter.

Costs

Total cost was THB1,425mn, increasing by 18.3%, which is higher than revenue growth. Main cost was from medical service business which is THG's group core business. The costs of the 3 businesses are classified as follows:

Cost of medical service was THB1,273mn, increasing by 10.5%. Main costs include doctor fees, nurse and staff costs, and drugs & medical supplies. The increase was mainly from pay raise and operation at Thonburi Bamrungmuang Hospital that just started. That resulted in higher drug and supplies cost, staff cost for service, and depreciation and amortization.

Cost of healthcare solutions provider was THB149mn, increasing by more than 100%. The main costs were 1) cost of goods sold of dental equipment which average profit margin was lower than last year 2) cost of active living units in Jin Wellbeing County.

Cost of other businesses was THB3mn, decreasing by 25% along with revenue decrease. Main cost includes staff cost in hospital software development business.

Selling, general and administrative expenses

SG&A and management remuneration was THB378mn, increasing by 17.0%. It was from the increase in staff cost, pay raise and operating expenses of Thonburi Bamrungmuang Hospital that was just opened in the quarter.

Financial cost

It was THB43mn, increasing by 30.3% due to the loan for project development. Interest-bearing debt as of 31 March 2019 was THB7,362mn, higher than THB4,339mn last year or by 69.7%. The average interest rate decreased from 3.1% to 3.0%.

Profit

Gross profit was THB447mn, decreasing by 6.5%. Gross profit margin was 23.9% from 28.4% last year, mainly because there was no revenue from overseas consultancy service and high fixed cost when compared to revenue of Thonburi Bamrungmuang Hospital that was just opened in this quarter

Net profit attributable to the parent was THB8mn, decreasing by 94.9%. Net profit margin (parent) was 0.4% from 9.4% last year. It was mainly because 1) there was no revenue from overseas consultancy service 2) high fixed cost when compared to revenue of Thonburi Bamrungmuang Hospital 3) in 1Q18, THG had other income from disposal of investment and other income and 4) higher SG&A mainly from operation of Thonburi Bamrungmuang Hospital.

Financial Highlights

<i>Profit and loss statements (million baht)</i>	Consolidated financial statements		
	1Q19	1Q18	Change
Revenue from medical service	1,651	1,594	3.6%
Revenue from Healthcare solution provider	218	83	162.7%
Revenue from other businesses	3	6	-50.0%
Total revenue	1,872	1,683	11.2%
Cost from medical service	(1,273)	(1,152)	10.5%
Cost from Healthcare solution provider	(149)	(49)	204.1%
Cost from other businesses	(3)	(4)	-25.0%
Total cost	(1,425)	(1,205)	18.3%
Gross profit	447	478	-6.5%
Selling, general and admin expenses	378	323	17.0%
EBITDA	188	348	-46.0%
Normalized EBITDA	188	267	-29.6%
Financial cost	43	33	30.3%
Net profit	11	161	-93.9%
Normalized net profit	11	96	-88.5%
Net profit - parent	8	158	-94.9%
Normalized net profit - parent	8	93	-91.4%

<i>Financial Ratio</i>	1Q19	1Q18
Gross profit margin	23.9%	28.4%
EBITDA margin	10.0%	20.7%
Normalized EBITDA margin	10.0%	15.9%
Net profit margin - parent	0.4%	9.4%
Normalized net profit margin - parent	0.4%	5.5%

Financial status

Assets

As of 31 March 2019, THG had total assets of THB18,685mn, from THB17,927mn as of 31 December 2018,

Current assets increased from

- cost of developing holistic care project of THB272mn, from the construction of Jin Wellbeing County and Thonburi Health Village
- reclassification of non-current assets of THB83mn, from non-current assets classified as held-for-sell to current assets because THG has a plan to sell land of a subsidiary with sell and purchase contract for land already made.

Non-current assets increased from

- long-term investment of THB77mn from revaluation of fair price as at the end of quarter
- higher investment in associates of THB12mn from profit in the quarter
- land, property and equipment, and advance payment for fixed assets of THB531mn from the investment of THG' subsidiary in construction, renovation and equipment for Jin Wellbeing County and Thonburi Bamrungmuang Hospital and from THG's additional investment Thonburi Thungsong Hospital (Thanarad Thungsong Co. Ltd.)

However, investment in JV decreased by THB53mn from loss of overseas hospitals. Ar Yu International Hospital had depreciation and staff costs from its initial operation in September 2018 and full operation in March 2019.

Liabilities

As of 31 March 2019, THG has total liabilities of THB9,900mn, increasing from THB9,201mn as of 31 December 2018. Most of them were short-term and long-term debt from financial institutions. Net increase of debt from financial institutions was THB1,165mn for investment and project development. Trade and other accounts payable decreased by THB527mn mainly from payment for construction and fixed assets of Jin Wellbeing Country and Thonburi Bamrungmuang Hospital.

Equity

As of 31 March 2019, THG has total equity of THB8,785mn, increasing from THB8,726mn as of 31 December 2018. The increase was from higher value of long-term stock investment (other components of equity on measurement of available-for-sale investments).

	Consolidated financial statements		
<i>Statements of financial position (million baht)</i>	31 March 2019	31 December 2018	Change
Current assets	4,427	4,268	3.7%
Non-current assets	14,258	13,659	4.4%
Total assets	18,685	17,927	4.2%
Current liabilities	6,353	5,325	19.3%
Non-current liabilities	3,547	3,876	-8.5%
Total liabilities	9,900	9,201	7.6%
Total equity	8,785	8,726	0.7%

	Consolidated financial statements	
<i>Financial ratios</i>	31 March 2019	31 December 2018
Current ratio (times)	0.7	0.8
Return on assets (%)	2.7%	3.9%
Assets turnover (times)	0.4	0.5
Return on equity (%)	2.4%	4.2%
Debt/ equity (times)	1.1	1.1
Interest bearing debt/ EBITDA (times)	7.9	5.7
Debt service coverage ratio (DSCR) (times)	1.4	2.0
Interest coverage ratios (times)	2.9	4.4

Capital management in 1Q19 compared to 1Q18

- **Net cash used in operating activities** was THB212mn, increasing more than 100% because of payment to suppliers and for project development.
- **Net cash used in investing activities** was THB1,034mn, increasing by 60.8% from the payment for fixed assets and leasehold right of Thonburi Bamrungmuang Hospital.
- **Net cash generated from financing activities** was THB1,162mn, increasing by 77.4% due to loans from financial institutions for investment and project development.

<i>Statement of cashflow (million baht)</i>	Consolidated financial statements	
	1Q19	1Q18
Net cash used in operating activities	(212)	(38)
Net cash used in investing activities	(1,034)	(643)
Net cash generated from financing activities	1,162	655
Net decrease in cash and cash equivalents	(84)	(26)
Cash and cash equivalents at the end of period	658	556
