



No. RJH – SET 10/2018

12 November 2018

Subject : Management Discussion and Analysis for the 3<sup>rd</sup> quarter of 2018 ending September 30, 2018

To : The President  
The Stock Exchange of Thailand

Rajthanee Hospital Public Company Limited (“the Company”) would like to clarify the operating results of the Company and its subsidiaries for the 3<sup>rd</sup> quarter of 2018 ending September 30, 2018 which has been audited by the independent auditor as follows:

**Statements of Comprehensive Income for the 3<sup>rd</sup> Quarter and 9 months of 2018**

| Operation : Consolidated Profit & Loss Statement<br>Unit : THB million | 3Q<br>2018    | 3Q<br>2017    | %<br>change | 9 mth<br>2018   | 9 mth<br>2017   | %<br>change |
|--|---------------|---------------|-------------|-----------------|-----------------|-------------|
| Revenue from non-social security                                       | 260.11        | 220.49        | 18%         | 690.45          | 575.79          | 20%         |
| Revenue from social security   | 166.93        | 169.68        | -2%         | 502.99          | 460.18          | 9%          |
| <b>Revenue from Hospital Operations</b>                                | <b>427.04</b> | <b>390.17</b> | <b>9%</b>   | <b>1,193.44</b> | <b>1,035.97</b> | <b>15%</b>  |
| Cost of hospital operations  | 293.81        | 262.51        | 12%         | 825.87          | 727.34          | 14%         |
| Gross margin   | 133.24        | 127.66        | 4%          | 367.57          | 308.63          | 19%         |
| <i>% Gross margin</i>  | <i>31%</i>    | <i>33%</i>    | <i>-2%</i>  | <i>31%</i>      | <i>30%</i>      | <i>1%</i>   |
| Administrative expenses  | 41.56         | 39.07         | 6%          | 140.90          | 112.68          | 25%         |
| Earnings before interest, taxes and depreciation                       | 116.15        | 114.01        | 2%          | 302.68          | 270.02          | 12%         |
| <i>% Earnings before interest, taxes and depreciation</i>              | <i>27%</i>    | <i>29%</i>    | <i>-2%</i>  | <i>25%</i>      | <i>26%</i>      | <i>-1%</i>  |
| Other income /(expenses)   | 4.33          | 5.00          | -13%        | 18.53           | 15.29           | 21%         |
| Financing cost   | 3.83          | 0.58          | 556%        | 8.45            | 2.98            | 184%        |
| Tax (Note)   | 17.10         | 18.57         | -8%         | 48.63           | 10.64           | 357%        |
| Net profit   | 75.08         | 74.43         | 1%          | 188.12          | 197.63          | -5%         |
| <i>% Net profit margin</i>   | <i>17%</i>    | <i>19%</i>    | <i>-1%</i>  | <i>16%</i>      | <i>19%</i>      | <i>-3%</i>  |
| Non-controlling interest   | 0.19          | 2.51          | -93%        | 3.47            | 22.32           | -84%        |
| <b>Net profit attributable to The Company</b>                          | <b>74.89</b>  | <b>71.93</b>  | <b>4%</b>   | <b>184.65</b>   | <b>175.30</b>   | <b>5%</b>   |

Note: During 1Q’17, the subsidiary has recorded income incurred from deferred tax for the amount of THB 28.6 million. The net amount after amortization was 25.0 million in the first 9-month period of 2017

**Revenue from Hospital Operations**

Revenue from hospital operations in the third quarter of 2018 (“3Q’18”) was THB 427 million, increased 9% yoy. Non-social security yoy revenue growth was highly 18% while social security revenue growth slightly decreased. Non-social security’s promising growth was attributed by the increase of number of patients as well as bill amount per patient.

A yoy slight decline of social security revenue were mainly from high care cost revenue following the change of scoring criteria effective this year despite an increase of average number of registered patients to 176,554 from 164,812 person yoy.



Revenues for the 9 months of 2018 (9M'18) increased 15% yoy which were contributed by both non-social security and social security revenue. For non-social security part, the majority of growth came from IPD which posted 26% growth yoy due to more intensity treatment, epidemics and weather change in the beginning of this year as well as increasing number of beds in service.

### Cost of Hospital Operations

Cost of hospital operations in 3Q'18 and 9M'18 increased by 12% and 14% yoy, respectively. However, 3Q'18 gross margin ratio was lower than previous year due to decrease in social security revenue as mentioned above while related cost was not proportionally decreased.

For 9M'18, gross margin ratio was 31% higher than 30% of 9M'17. This margin improvement was contributed by more revenue contribution from non-social security patients which generated high margin and effect of increase of social security payment rate in 1H'18. Moreover, the efficient cost management such as medicine & medical supplies as well as the benefit from economy of scale in term of declined fixed cost per unit were another factors to gross margin improvement.

### Administrative Expenses

For 3Q'18 and 9M'18, administrative expenses increased 6% and 25% yoy, respectively. The substantial increase in 9M'18 was mainly from the accounting expense stemming from the revised down of social security income of 4Q'17 for amount of THB 10.7 million. Without taken into account this extra expense, the administrative expenses will increase by 16% yoy.

This increase was due to one-time expenses incurring from legal & advisory fee for the acquisition of subsidiary's remaining shares in 1Q'18.

### Financing Costs

In 3Q'18, financing cost increased THB 3.3 million yoy. This was due to an increase of bank loans for the acquisition of the remaining shares of the subsidiary.

### Net Profits

The consolidated profit before non-controlling interest of 3Q'18 increased by 1% yoy. The slight increase of net profit despite high growth of income was primarily due to lower gross margin ratio as mentioned above. However, the net profit attributable to the Company increased by 4% yoy because more profit contributed from subsidiary following the acquisition of shares to 98.31% from 53.93% in 1Q'18.

The consolidated profit before non-controlling interest of 9M'18 decreased by 5% yoy despite higher income and gross margin ratio. This was due to the impact from 2017 high base incurring from upward adjustment of THB 7.7 million social security income and subsidiary's deferred tax income for the net amount of THB 25.0 million. Whereas 2Q'18 recorded the extra accounting expense for the amount of THB. 10.7 million. However, the net profit attributable to the Company still increased by 5% for 9-month period in 2018.

If we exclude the above extra transactions totaling THB 32.7 million from 2017 performance and THB 10.7 million from 2018, the consolidated profit before non-controlling interest for 9M'18 would grow by 21% yoy.



**Statement of Financial Position as of 30 September 2018**

| Financial Position : Consolidated Balance Sheet | Sep.            | Sep.            | Dec             | % Change          |                   |
|---|-----------------|-----------------|-----------------|-------------------|-------------------|
|   | 2018            | 2017            | 2017            | Sep.18-<br>Sep.17 | Sep.18-<br>Dec.17 |
| Unit : THB million                              |                 |                 |                 |                   |                   |
| Cash and temporary investments                  | 484.31          | 593.05          | 666.92          | -18%              | -27%              |
| Trade receivables                               | 316.24          | 279.13          | 223.10          | 13%               | 42%               |
| Inventories                                     | 26.07           | 20.82           | 23.79           | 25%               | 10%               |
| Property, Plant and Equipment                   | 855.62          | 787.64          | 829.61          | 9%                | 3%                |
| Goodwill  | 87.80           | 87.80           | 87.80           | 0%                | 0%                |
| Other assets                                    | 58.30           | 62.65           | 70.03           | -7%               | -17%              |
| <b>Total assets</b>                             | <b>1,828.34</b> | <b>1,831.10</b> | <b>1,901.25</b> | <b>0%</b>         | <b>-4%</b>        |
| Trade payable                                   | 126.33          | 122.27          | 113.88          | 3%                | 11%               |
| Interest-bearing debts                          | 350.42          | 2.07            | 1.80            | 16859%            | 19393%            |
| Employee Benefit Obligation                     | 41.35           | 28.58           | 38.35           | 45%               | 8%                |
| Other liabilities                               | 70.13           | 59.52           | 80.83           | 18%               | -13%              |
| <b>Total liabilities</b>                        | <b>588.23</b>   | <b>212.43</b>   | <b>234.86</b>   | <b>177%</b>       | <b>150%</b>       |
| Total shareholders' equity of the Company       | 1,236.92        | 1,545.54        | 1,590.99        | -20%              | -22%              |
| Non-controlling interest                        | 3.19            | 73.13           | 75.40           | -96%              | -96%              |
| <b>Total shareholders' equity</b>               | <b>1,240.11</b> | <b>1,618.67</b> | <b>1,666.39</b> | <b>-23%</b>       | <b>-26%</b>       |

The consolidated total assets as of 30 September 2018 barely changed yoy. Cash and cash equivalent decreased 18% due to the spending of some internal cash flow to acquire the remaining shares of the subsidiary in 1Q'18. Social Security Office's trade receivable increased which was in line with more registered persons. The increase of property, plant and equipment was due to the investment in MRI and Hemodialysis Centers and renovation of building at the beginning of this year.

Total liabilities of the Company at the end of June 2018 increased 177% yoy. This was mainly due to an increase of loans from financial institutions to acquire the remaining shares of the subsidiary.

The shareholders' equity at the end of the third quarter of 2018 decreased by 23% yoy due to the Company acquired additional shares from subsidiary to 98.31% from 53.93%. The acquisition proceeds of THB 419.40 million were higher than the book value of net assets for the amount of THB. 343.72 million. This amount was deducted in shareholders' equity as part of the changes the proportion of subsidiary.



**Ratio Analysis: Financial Statement year ended September 30, 2018**

| Ratio Analysis : Consolidated Financial Statements | 9mth  | 9mth  |
|--|-------|-------|
| Unit : THB million                                 | 2018  | 2017  |
| <b>Returns (%)</b>                                 |       |       |
| Return on Assets *                                 | 13.5% | 12.9% |
| Return on Equity *                                 | 19.9% | 14.6% |
| <b>Working Capital Management (Days)</b>           |       |       |
| Trade Receivable Period                            | 24    | 25    |
| Inventory Period **                                | 13    | 12    |
| Trade Payable Period                               | 14    | 15    |
| <b>Leverage Ratios (x)</b>                         |       |       |
| Interest Coverage                                  | 36    | 91    |
| Total Debt to Equity                               | 0.47  | 0.13  |

\* calculated by using earnings of four previous consecutive quarters

\*\* based on only cost of medicine & medical supplies

Return on Assets and Return on Equity in 9 months 2018 improved from 12.9% and 14.6% to 13.5% and 19.9% yoy. It was driven by the outstanding profit for the Company and its subsidiary. In addition, the significant improvement of return on equity was from the decrease of shareholders' equity as mentioned above.

For the financial risk perspective, despite the higher debt ratio comparing to previous year, the ratio was nonetheless at relatively low level. Interest coverage ratio (EBITDA / finance costs) decreased to 36x from 91x stemming from the increase of loans and decrease of shareholders' equity as mentioned above. As a result, debt to equity ratio increased but remained at low level of merely 0.47x.

In respect of liquidity ratio in this quarter, the ratios were almost unchanged yoy. Trade receivable and trade payable period decreased while inventory period slightly increased.

Please be informed accordingly.

Yours sincerely,

(Mr. Wachira Wudhikulprapan)  
Managing Director