

SITHAI-1101/62

13 November 2019

Subject Management Discussion and Analysis for Q3/2019

Dear President

The Stock Exchange of Thailand (SET)

With respect to the interim financial information for Q3/2019 which has been reviewed by the external auditor, considered by the Audit Committee, and approved by the Company's Board of Directors on 13 November 2019, the Company wishes to report in summary as follows:

1. Summary of Operating Results of the Group

The summary of operating results for Q3/2019 decreased from Q3/2018, but increased from Q2/2019. Sales of Baht 2,052 million decreased by Baht 256 million or 11.1% YoY and decreased by Baht 207 million or 9.2% QoQ. This was mainly due to a drop in sales for household and industrial products of domestic operations, resulting from domestic economic slowdown, delayed

Table 1: Summary of Operating Results of the Group

(Unit: Million Baht)	Q3/2018	Q2/2019	Q3/2019	%YoY + / (-)	%QoQ + / (-)
Sales	2,308*	2,259	2,052	(11.1%)	(9.2%)
Gross Profit	257*	201	193	(24.9%)	(4.0%)
Gross Profit (%)	11.1%	8.9%	9.4%	(1.7%)	0.5%
EBITDA**	215	159	170	(20.9%)	6.9%
EBITDA Margin (%)	9.3%	7.0%	8.3%	(1.0%)	1.2%
Net loss for the period	(6)	(65)	(47)	683.3%	(27.7%)
Net loss on sales (%)	(0.3%)	(2.9%)	(2.3%)	(2.0%)	0.6%
Loss attributable to equity holders of the Company	(6)	(64)	(52)	766.7%	(18.8%)
Loss per share (Baht)	(0.002)	(0.023)	(0.019)	850.0%	(17.4%)

Note:

*Restated sales according to TFRS 15

**EBITDA excluding share of profit from investments in associates

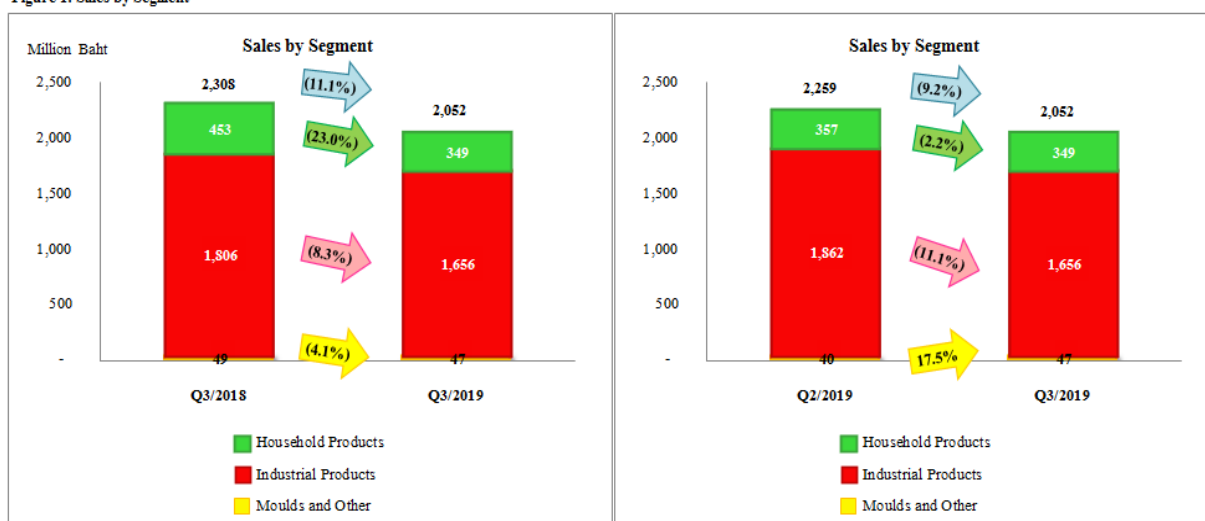
investment by private sector, intense market competition, prolonged trade war as well as the appreciation of Thai baht. Nevertheless, beverage packaging products in Vietnam continued to perform well.

Gross profit of Baht 193 million decreased by Baht 64 million or 24.9% YoY, and decreased by Baht 8 million or 4.0% QoQ. Gross profit margin of 9.4% decreased from 11.1% in Q3/2018. Decrease in gross profit resulted from the decrease in sales following the economic slowdown, and a stronger Thai Baht affecting foreign orders. While the production costs increased due to not full utilization of production capacity and annual wage adjustment. However, gross profit margin increased by 0.5% QoQ due to the effect of the compensation adjustment under new labour law which recorded in Q2/2019.

Earnings before interest, tax, depreciation and amortization (“EBITDA”) of Baht 170 million (EBITDA margin 8.3%), decreased by Baht 45 million or 20.9% YoY, but increased by Baht 11 million or 6.9% QoQ. As such, net loss of Q3/2019 was Baht 47 million with a loss attributable to the equity holders of the Company being Baht 52 million. This represents a Loss Per Share of Baht 0.019, an increase from a Loss Per Share of Baht 0.002 YoY.

2. Operating Results by Segment

Figure 1: Sales by Segment



2.1 Plastic Business Line

2.1.1 Household Products

Q3/2019 sales of Household Business Products were Baht 349 million, decreased from Q3/2018 and Q2/2019 by 23.0% and 2.2%, respectively, which can be summarized according to the following operating business bases:

➤ Domestic operations

Sales dropped from both domestic and export sales. Domestic sales were directly affected by

Table 2: Summary of Operating Results of Household Products

(Unit: Million Baht)	Q3/2018	Q2/2019	Q3/2019	%YoY + / (-)	%QoQ + / (-)
Sales	453*	357	349	(23.0%)	(2.2%)
Domestic operations	361	283	251	(30.5%)	(11.3%)
Overseas operations	92	74	98	6.5%	32.4%
Operating profit (loss)	9	(37)	(47)	(622.2%)	27.0%
Operating profit (loss) margin (%)	2.0%	(10.4%)	(13.5%)	(15.5%)	(3.1%)
EBITDA**	31	(16)	(26)	(183.9%)	62.5%
EBITDA Margin (%)	6.8%	(4.5%)	(7.4%)	(14.3%)	(3.0%)

Note:

*Restated sales according to TFRS 15

**EBITDA excluding other income and share of profit from investments in associates

domestic economic slowdown, high household debt levels, careful credit control by financial institutions, and more intense competition from cheap imported goods of competitors as well as changing consumers' behavior to buy more products online leading to diminishing domestic sales in direct sales channel. Whereas, export sales were directly affected by the prolonged trade war and the appreciation of Thai Baht against the US Dollar, as can be seen from the movement of the Baht/USD (shown in Figure 2). In addition, main customers in Japan are in the process of developing new raw materials and no special orders received, resulting in lower export sales in Q3/2019.

Figure 2: Exchange rate trend Baht per US Dollar



Source: <https://tradingeconomics.com/thailand/currency>

➤ Overseas operations

Sales increased from subsidiaries in Vietnam and India, due to the restructuring of sales and sales teams as well as expanding distribution channels together with boosting further sales in traditional trade channel and introducing new products for customers in India.

The decrease in sales of Household Business Products led to the operating loss in Q3/2019 with operating loss margin 13.5%, decreased from Q3/2018 at operating profit margin of 2.0% and Q2/2019 at operating loss margin of 10.4%. EBITDA margin declined from positive 6.8% in Q3/2018 to negative 4.5% in Q2/2019 and negative 7.4% in Q3/2019, respectively. Such decrease in operating margin was derived from the decrease in gross profit in line with lower sales according to economic situation, and the Baht appreciation against the US Dollar since the end of 2018. Whereas, cost of sales decreased in lower proportion due to underutilization, the Company's annual wage raise, despite no significant change in price of major raw materials, resulting in small reduction in production costs. While selling and administrative expenses decreased from diminishing export expenses, unnecessary costs and expenses cutting and organizational restructuring. These expenses were smaller in proportion than the significant decrease in sales.

2.1.2 Industrial Products

Q3/2019 sales of Industrial Business Products were Baht 1,656 million, decreased by 8.3% YoY, and decreased by 11.1% QoQ, which can be summarized according to the following operating business bases:

➤ Domestic operations

Total sales decreased compared with Q3/2018 derived mainly from industrial products, due

to the economic slowdown and decreased investment by private sector resulting in lower sales of pallets, containers, garbage bins, and pails. While sales for beverage packaging products decreased due to the low season in the third quarter for beverage packaging products and weather volatility in many areas of Thailand.

➤ Overseas operations

Sales decreased from Q3/2018 due to decrease in selling price of beverage packaging products in line with declining raw material price, although sales volume increased from the previous year. And sales decreased from Q2/2019 due to the above-mentioned low season.

Nevertheless, operating profit of Industrial Business Products increased from Q3/2018 and Q2/2019 with operating profit margin increased from 0.2% in Q3/2018 and 0.4% in Q2/2019 to 1.0%, while EBITDA margin increased from 9.8% in Q3/2018 and 9.3% in Q2/2019 to 10.8%. This was

mainly due to improving performance of beverage packaging products from overseas operations, deriving from the reduction of raw material prices from previous year (shown in Figure 3), apart from decreasing selling and administrative expenses of industrial products in line with falling sales.

Table 3: Summary of Operating Results of Industrial Products

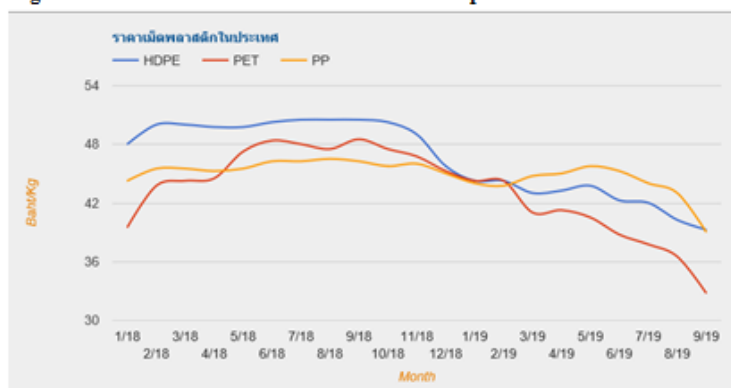
(Unit: Million Baht)	Q3/2018	Q2/2019	Q3/2019	%YoY +/(–)	%QoQ +/(–)
Sales	1,806*	1,862	1,656	(8.3%)	(11.1%)
Domestic operations	1,238	1,254	1,111	(10.3%)	(11.4%)
Overseas operations	568	608	545	(4.0%)	(10.4%)
Operating profit	3	8	16	433.3%	100.0%
Operating profit margin (%)	0.2%	0.4%	1.0%	0.8%	0.5%
EBITDA**	177	173	179	1.1%	3.5%
EBITDA Margin (%)	9.8%	9.3%	10.8%	1.0%	1.5%

Note:

*Restated sales according to TFRS 15

**EBITDA excluding other income and share of profit from investments in associates

Figure 3: Trend of main raw materials historical price from 2018



Source: <http://plastic.oie.go.th/>

2.2 Moulds and Other Business Line

Q3/2019 sales of the Moulds and Other Business Line were Baht 47 million, decreased by 4.1% from Q3/2018 due to the downsize of Network Business resulting in decreased sales. However, sales increased by 17.5% from Q2/2019 due to the delivery of moulds of a subsidiary.

Operating loss of Moulds and Other Business Line was Baht 5

million, decreased from Q3/2018 and Q2/2019 which equaled to loss of Baht 10 million and Baht 16 million, respectively. Operating loss margin was 10.6% in Q3/2019 compared with loss margin of 20.4% in Q3/2018 and loss margin of 40.0% in Q2/2019. EBITDA margin was negative 4.3%. Negative EBITDA margin improved from loss margin of 10.2% in the previous year and loss margin of 30.0% in the previous quarter due to more revenue generated and cost control of moulds business.

Table 4: Summary of Operating Results of Moulds and Other Business Line

(Unit: Million Baht)	Q3/2018	Q2/2019	Q3/2019	%YoY +/(–)	%QoQ +/(–)
Sales	49*	40	47	(4.1%)	17.5%
Domestic operations	45	37	46	2.2%	24.3%
Overseas operations	4	3	1	(75.0%)	(66.7%)
Operating loss	(10)	(16)	(5)	(50.0%)	(68.8%)
Operating loss margin (%)	(20.4%)	(40.0%)	(10.6%)	9.8%	29.4%
EBITDA**	(5)	(12)	(2)	(60.0%)	(83.3%)
EBITDA Margin (%)	(10.2%)	(30.0%)	(4.3%)	5.9%	25.7%

Note:

*Restated sales according to TFRS 15

**EBITDA excluding other income and share of profit from investments in associates

3. Financial Position

As at 30 September 2019, compared with the end of 2018, total assets decreased, which comprised the key items as follows:

➤ Trade receivables decreased by Baht 223 million from customers of household and industrial products in line with the decrease in sales for a 9 month period together with debt collection management.

➤ Inventories decreased by Baht 327 million, given the established policy of production based on orders received from customers in order to reduce stocking up and clear excess inventories of the Group.

Table 5: Key items in Statement of financial position

(Unit: Million Baht)	31 Dec 18	30 Sep 19	Increase (Decrease)
Trade receivables	2,072	1,849	(223)
Inventories	1,772	1,445	(327)
Property, plant and equipment	4,909	4,381	(528)
Total assets*	10,239	9,048	(1,191)
Trade payables	1,022	861	(161)
Short-term loans	2,156	1,849	(307)
Long-term loans	1,872	1,318	(554)
Total liabilities*	5,814	4,968	(846)
Total shareholders' equity*	4,425	4,080	(345)

Note:

*Total lines extracted from Statements of Financial Position

➤ Property, Plant and Equipment decreased by Baht 528 million due mainly to depreciation and amortization and postponing investment in fixed assets.

Total liabilities decreased by Baht 846 million which comprised the key items as follows:

➤ Trade payable decreased by Baht 161 million from management of inventories and purchasing based on orders.

➤ Short-term loans decreased by Baht 307 million and long-term loans decreased by Baht 554 million due principally to repayment of loans without creating any additional debt.

Total shareholders' equity decreased by Baht 345 million from operating loss, exchange rate differences on translation of financial statements in foreign currency, and dividend payment during the period.

4. Cash flow

The Group had a decrease in cash and cash equivalents compared with a nine-month period of 2018 as follows:

➤ Increase in cash flow from operating activities compared with last year mainly due to the decrease in inventories and trade receivables from

management of inventories, reducing excess inventories, and debt collection.

➤ Decrease in cash flow used in investment activities compared with last year due to acquisition of assets since the end of previous year and postponement of investment.

➤ Increase in cash flow used in financing activities compared with last year, due mainly to repayment of short term and long term loans.

As at 30 September 2019, the Group still has available unused credit facilities totaling more than Baht 4 billion comprising overdraft facilities, and revolving credit lines. As such, the Group is confident that it has sufficient cash flow for its operations.

Table 6: Cash flow statement

(Unit: Million Baht)	9 months	9 months
	2018	2019
Net cash flows from operating activities	699	1,001
Net cash flows used in investing activities	(104)	(96)
Net cash flows used in financing activities	(606)	(979)
Net increase (decrease) in cash and cash equivalents	(11)	(74)

5. Key Financial Ratios

Liquidity Ratio

Liquidity ratio as at end of Q3/2019 was equal to the end of Q3/2018 and Q2/2019 being 1.0 time, which showed that current assets were sufficient against payment of current liabilities.

Working Capital Ratios

Cash Cycle as at the end of Q3/2019 was 109.4 days, improving from the end of Q3/2018 and Q2/2019 being 116.0 days and 110.6 days, respectively, due to:

➤ As at the end of Q3/2019, the average number of days for Trade Receivables equaled to 81.1 days, an increase compared with the end of Q3/2018 being 77.5 days due to the decrease in sales, whereas the days decreased compared with the end of Q2/2019 being 83.3 days. This is due to the collection of debt resulting in higher proportion of decrease in trade receivables than the decrease in sales.

➤ As at the end of Q3/2019, the average number of days for Inventories equaled to 70.0 days, a decrease compared with the end of Q3/2018 being 82.4 days. This is due to the procurement and management of raw materials in stock relative to sales and production plan together with lowering finished goods. Whereas the days increased compared with Q2/2019 being 67.8 days. This is due to the effect of the compensation adjustment under new labour law which recorded in costs of sales in Q2/2019.

➤ As at the end of Q3/2019, the average number of days for Trade Payables equaled to 41.7 days, a decrease compared with the end of Q3/2018 being 43.9 days. This is due to the decrease in trade payables according to procurement of raw materials in relative with stock management and sales plan. Whereas the days increased compared with the end of Q2/2019 being 40.5 days. This is due to the effect of the compensation adjustment under new labour law which recorded in costs of sales in Q2/2019.

Profitability Ratios

➤ Return on Equity, as at the end of Q3/2019 was a loss 1.1%, further loss compared with the end of Q3/2018 being loss 0.1% corresponding to the lower operating result from previous year. The loss decreased compared with the end of Q2/2019 being loss 1.6% due to the effect of the compensation adjustment under new labour law in Q2/2019.

Table 7: Key Financial Ratios

Description	Unit	Q3/2018	Q2/2019	Q3/2019
Liquidity Ratio				
Current Ratio	Times	1.0	1.0	1.0
Working Capital Ratios				
Collection Period	Days	77.5	83.3	81.1
Inventory Turnover Period	Days	82.4	67.8	70.0
Payment Period	Days	43.9	40.5	41.7
Cash Cycle	Days	116.0	110.6	109.4
Profitability Ratios				
Return on Equity	%	(0.1)	(1.6)	(1.1)
Return on Operating Assets	%	(0.1)	(1.4)	(1.1)
Financial Structure Ratios				
Debt to Equity	Times	1.3	1.3	1.2
Net Interest Bearing Debt to Equity	Times	0.9	0.8	0.7

➤ Return on Operating Assets, as at the end of Q3/2019 was a loss 1.1%, more loss compared with the end of Q3/2018 being loss 0.1% corresponding to the lower operating result. The loss decreased compared with the end of Q2/2019 being loss 1.4% due to the effect of the compensation adjustment under new labour law in Q2/2019.

Financial Structure Ratios

➤ The Group had Debt to Equity ratio as at the end of Q3/2019 of 1.2 times, a decrease compared with the end of Q3/2018 and Q2/2019 being 1.3 times. This is due to an overall decrease in debts consistent with a decrease in outstanding balance of loans and payment to suppliers, while total shareholders' equity decreased, resulting from operating loss and annual dividend payment.

➤ Net interest bearing debts to equity of the Group at the end of Q3/2019 was 0.7 times, a decrease compared with the end of Q3/2018 and Q2/2019 being 0.9 times and 0.8 times, respectively as a result of the decrease in proportion of interest-bearing debts and the decrease in shareholders' equity.

6. Business outlook in Q4/2019

6.1 Plastic Business Line

Household Products

The domestic economic slowdown, intense competition from competitors' imported goods, and the continued strength of Thai Baht, including the prolonged trade war may affect both domestic and export sales of the Group. However, the Group has developed the new products continually including environmentally friendly products, focused on maintaining the customer base with in response to customers' needs. The Group has also introduced new marketing channels such as e-commerce via social media, to serve emerging market competition, together with organizational restructuring, further use of automation in production, and reducing unnecessary expenses. Whereas, sales from overseas operation grow in accordance with the economic growth in Vietnam and expansion of new products in India, together with upcoming major festival at the end of the year. Therefore, sales will continue to grow.

Industrial Products

Beverage packaging products will enter the high festive season in the fourth quarter whereby beverage operators will create more sales promotion, but may be affected by sugar tax in the beginning. In addition, the prospect of beverage packaging products in Vietnam is bright with constant sales growth, in line with economic growth and strong support by the Vietnamese government to boost the economy. Therefore, it is very beneficial to the growth of our subsidiaries in Vietnam. The business expansion of our customers as well as better management of raw material price also contribute to a decent outlook.

The development of food packaging products with customers is in the pipeline in order to produce environmentally

friendly and biodegradable/compostable packaging products.

Other product groups may still be affected by the economic slowdown and investment by private sector. The sluggish export sector may affect the businesses relating to exports. Therefore, it may directly affect the Group's industrial products.

6.2 Moulds and Other Business Line

Sales remain stable due to the current economic situation and the automotive industry outlook. However, we expect to recognize additional revenue from automotive moulds in the last quarter corresponding to orders received during motor show.

Overall, amid dim economic outlook, the Company has restructured the organization, postponed domestic investment, and reduced unnecessary costs and expenses. Simultaneously, the Company also focuses on working capital management and debt reduction to achieve the highest efficiency in operation.

Please be informed accordingly.

Yours faithfully,

Srithai Superware Public Company Limited

Chaiwat Kulphattaravanich

Director and Company Secretary