

SITHAI-0201/63

25 February 2020

Subject Management Discussion and Analysis for 2019

Dear President

The Stock Exchange of Thailand (SET)

With respect to the financial statements for 2019 which has been audited by the external auditor, considered by the Audit Committee, and approved by the Company's Board of Directors on 25 February 2020, the Company wishes to report in summary as follows:

1. Summary of Operating Results of the Group

The summary of operating result for 2019 decreased from 2018. Sales of Baht 8,846 million, a decrease by Baht 716 million or 7.5% YoY. This was mainly due to a drop in sales for household and industrial products of domestic operations, resulting from domestic economic slowdown, delayed investment and spending by private sector, intense market competition, prolonged trade war as well as the appreciation of Thai Baht. Nevertheless,

overseas operations in Vietnam showed decent result with growing profit, whereas operation in India has grown continually and started to deliver profit for the Group.

Gross profit of Baht 764 million, decreased by Baht 379 million or 33.2% YoY with gross profit margin of 8.6%, decreased from 12.0% in 2018. Decrease in gross profit resulted from the decrease in sales following the economic slowdown, a stronger Thai Baht affecting foreign orders, and the deep discount offerings to clear aging inventories. While the overall production costs and selling and administrative expenses increased due to low utilization of production capacity, annual wage adjustment, the effect of the compensation adjustment under new labour law, severance pay, and substantial loss from impairment of fixed assets. A large number of non-recurring adjustments this year contributed to the

Table 1: Summary of Operating Results of the Group

(Unit: Million Baht)	2019	2018	%YoY + / (-)
Sales	8,846	9,562*	(7.5%)
Gross Profit	764	1,143*	(33.2%)
Gross Profit (%)	8.6%	12.0%	(3.3%)
Operating profit (loss)	(190)	125	(252.0%)
Operating profit (loss) margin (%)	(2.1%)	1.3%	(3.5%)
EBITDA**	623	997	(37.5%)
EBITDA Margin (%)	7.0%	10.4%	(3.4%)
Net profit (loss) for the period	(212)	85	(349.4%)
Net profit (loss) on sales (%)	(2.4%)	0.9%	(3.3%)
Profit (loss) attributable to equity holders of the Company	(215)	76	(382.9%)
Earning (Loss) per share (Baht)	(0.08)	0.03	(382.1%)

Note:

*Restated sales according to TFRS 15

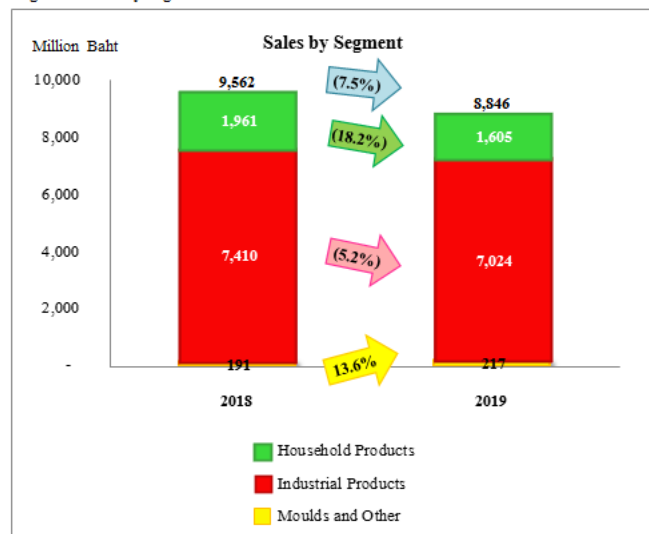
**EBITDA excluding share of profit from investments in associates

Group's substantial operating loss of Baht 190 million, representing operating loss margin of 2.1% compared with operating profit of Baht 125 million (operating profit margin of 1.3%) in 2018.

Earnings before interest, tax, depreciation and amortization ("EBITDA") of Baht 623 million (EBITDA margin 7.0%), decreased by Baht 374 million or 37.5% YoY. As such, net loss of 2019 was Baht 212 million with a loss attributable to the equity holders of the Company being Baht 215 million. This represents a Loss Per Share of Baht 0.08, a decrease from an Earning Per Share of Baht 0.03 YoY.

2. Operating Results by Segment

Figure 1: Sales by Segment



2.1 Plastic Business Line

2.1.1 Household Products

2019 sales of Household Business Products were Baht 1,605 million, decreased from 2018 by 18.2%, 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 domestic economic slowdown, high household debt levels,

Table 2: Summary of Operating Results of Household Products

(Unit: Million Baht)	2019	2018	%YoY + / (-)
Sales	1,605	1,961*	(18.2%)
Domestic operations	1,252	1,618	(22.6%)
Overseas operations	353	343	2.9%
Operating profit (loss)	(126)	82	(253.7%)
Operating profit (loss) margin (%)	(7.9%)	4.2%	(12.0%)
EBITDA**	(40)	173	(123.1%)
EBITDA Margin (%)	(2.5%)	8.8%	(11.3%)

Note:

*Restated sales according to TFRS 15

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

careful credit control by financial institutions, more intense competition from cheap imported goods of competitors and changing consumers' behavior towards online products. Nowadays, sales agents can sell products via online media, and get access to various product sources by themselves, causing a decline in membership of the direct sales business as well as 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). Apart from conflicts in the Middle East, causing order delay, retail market customers in Europe were also affected by online channel. All resulted in the decline in export sales in 2019.

Figure 2: Exchange rate trend Baht per US Dollar



➤ Overseas operations

Sales increased from subsidiaries in Vietnam and India. The retail market in Vietnam has grown as a result of increased consumption by growing population and per capita income. Sales through traditional trade channels as well as direct distributors rose. Sales of subsidiary in India increased due to the restructuring of sales structure and sales teams, expanding distribution channels, further sales promotion as well as introducing new products to targeted customers in India.

The decrease in sales of Household Business Products led to the operating loss in 2019 amounting to Baht 126 million with operating loss margin 7.9%, decreased from 2018 with operating profit margin of 4.2% and EBITDA margin declined from positive 8.8% in 2018 to negative 2.5% in 2019. Such decrease in operating margin was derived from the decrease in gross profit in line with lower sales according to economic situation, the Baht appreciation trend against the US Dollar, and the deep discount product offerings in grand sales to clear aging inventories. Whereas, cost of sales decreased in lower proportion due to low utilization, the Company's annual wage raise, and the effect of the compensation adjustment under new labour law, resulting in small reduction in production costs. While selling and administrative

expenses of domestic operations decreased from diminishing export expenses, unnecessary costs and expenses cutting, closing a number of non-profitable branches of direct sales business, and organizational restructuring. Nevertheless, selling and administrative expenses decreased in lower proportion than the decrease in sales.

2.1.2 Industrial Products

2019 sales of Industrial Business Products were Baht 7,024 million, decreased by 5.2% YoY, mainly from domestic operations. While, sales of overseas operations increased. It can be summarized according to the following operating business bases:

➤ Domestic operations

Total sales were Baht 4,786 million, decreased by Baht 486 million or 9.2%

YoY. It derived mainly from industrial products, due to the economic slowdown and delayed investment by private sector resulting in lower sales of pallets, garbage bins, containers, pails, and battery cases. In addition, auto parts sales of domestic subsidiary decreased in line with the automotive industry market situation. However, sales for beverage packaging products increased due to expanding the customer base in the bottled water manufacturers group in relation to the rise of health conscious consumers, apart from the bottled carbonated soft drinks manufacturers.

➤ Overseas operations

Sales increased from 2018 due to increase in sales of industrial products of subsidiary in Vietnam according to economic growth especially the fast growing of foreign investment in property market resulting in increased sales of paint pails. The sales of battery cases also increased following the growth of automotive market in Vietnam as well. Moreover, sales of beverage packaging products increased following economic growth and the expansion of tourists.

The decrease in sales of Industrial Business Products led to the operating loss in 2019 with operating loss margin 0.5%, decreased from 2018 at operating profit margin of 1.2% and EBITDA margin declined from 10.6% in 2018 to 8.9% in 2019. Such decrease in operating margin was derived from the decrease in gross profit in line with lower industrial products sales of domestic operations according to economic situation, the delayed investment by private sector, automotive industry situation. While the cost of sales decreased in less proportion due to low utilization, annual wage adjustment of the Company, and the effect of the compensation adjustment under new labour law, causing less reduction

Table 3: Summary of Operating Results of Industrial Products

(Unit: Million Baht)	2019	2018	%YoY + / (-)
Sales	7,024	7,410*	(5.2%)
Domestic operations	4,786	5,272	(9.2%)
Overseas operations	2,238	2,138	4.7%
Operating profit (loss)	(32)	88	(136.4%)
Operating profit (loss) margin (%)	(0.5%)	1.2%	(1.6%)
EBITDA**	628	786	(20.1%)
EBITDA Margin (%)	8.9%	10.6%	(1.7%)

Note:

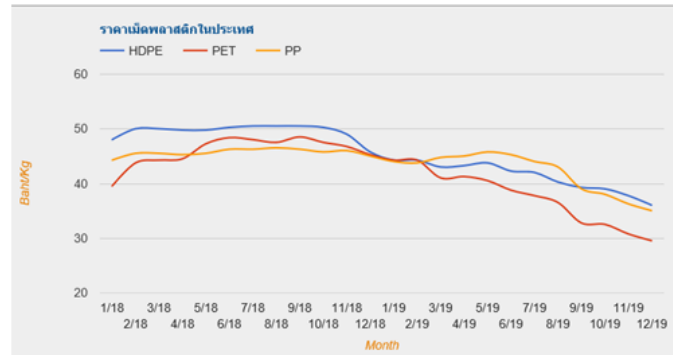
*Restated sales according to TFRS 15

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

in production costs. Selling and administrative expenses of domestic operations decreased from sales promotion expenses, unnecessary costs and expenses cutting, organizational restructuring, as well as a substantial loss from impairment of fixed assets. However, the expenses decreased in lower proportion than the decrease in sales.

Beverage packaging products of both domestic and overseas operations showed improving performance even though main raw material prices had decreased (shown in Figure 3).

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



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

2.2 Moulds and Others Business Line

2019 sales of the Moulds and Others Business Line were Baht 217 million, increased by 13.6% from 2018, which is an increase of moulds business due to the delivery of moulds of a subsidiary. Whereas sales of Network Business decreased from the downsizing and became part of direct sales business at the end of 2019.

Operating loss of Moulds and Others

Business Line was Baht 32 million, decreased from 2018 which equaled to loss of Baht 44 million. Operating loss margin was 14.7% in 2019 compared with loss margin of 23.0% in 2018 and EBITDA margin was negative 8.8%. Negative EBITDA margin improved from loss margin of 14.7% in the previous year due to more revenue generated of moulds business.

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

(Unit: Million Baht)	2019	2018	%YoY + / (-)
Sales	217	191*	13.6%
Moulds	210	176	19.3%
Others	7	15	(53.3%)
Operating loss	(32)	(44)	(27.3%)
Operating loss margin (%)	(14.7%)	(23.0%)	8.3%
EBITDA**	(19)	(28)	(32.1%)
EBITDA Margin (%)	(8.8%)	(14.7%)	5.9%

Note:

*Restated sales according to TFRS 15

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

3. Financial Position

As at 31 December 2019, compared with the end of 2018,

The Group had total assets of Baht 8,472 million, a decrease of Baht 1,767 million, which comprised the key items as follows:

➤ Trade receivables of Baht 1,737 million, decreased by Baht 335 million from the decrease in sales together with debt collection management both customers of household and industrial products.

➤ Inventories of Baht 1,177 million, decreased by Baht 595 million, due to the established policy of production based on orders received from customers in order to reduce stocking up and clear excess inventories of the Group to increase liquidity and working capital.

➤ Property, Plant and Equipment of Baht 4,185 million, decreased by Baht 724 million due mainly to depreciation and amortization and delayed investment in fixed assets.

Total liabilities of Baht 4,526 million, decreased by Baht 1,288 million which comprised the key items as follows:

➤ Trade payable of Baht 916 million, decreased by Baht 106 million from management of inventories and purchasing based on orders.

➤ Total loans of Baht 2,850 million, decreased by Baht 1,178 million, consisted of the decrease in short-term loans by Baht 453 million and long-term loans by Baht 725 million due principally to repayment of loans without creating any additional debt.

Total shareholders' equity of Baht 3,946 million, decreased by Baht 479 million, deriving from operating loss, exchange rate differences on translation of financial statements in foreign currency, and dividend payment during the year.

Table 5: Key items in Statement of financial position

(Unit: Million Baht)	31 Dec 19	31 Dec 18	Increase (Decrease)
Trade receivables	1,737	2,072	(335)
Inventories	1,177	1,772	(595)
Property, plant and equipment	4,185	4,909	(724)
Total assets*	8,472	10,239	(1,767)
Trade payables	916	1,022	(106)
Short-term loans	1,703	2,156	(453)
Long-term loans	1,147	1,872	(725)
Total liabilities*	4,526	5,814	(1,288)
Total shareholders' equity*	3,946	4,425	(479)

Note:

*Total lines extracted from Statements of Financial Position

4. Cash flow

The Group had a decrease in cash and cash equivalents by Baht 91 million, consisting of:

➤ Cash flow from operating activities

were Baht 1,330 million mainly from the

decrease in inventories and trade receivables from management of inventories, reducing excess inventories, and debt collection.

➤ Cash flow used in investment activities were Baht 120 million from the postponement and reduction of investment.

➤ Cash flow used in financing activities were Baht 1,301 million from the repayment of short term and long term loans in order to reduce debts of the Group.

As at 31 December 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)	12 months	12 months
	2019	2018
Net cash flows from operating activities	1,330	947
Net cash flows used in investing activities	(120)	(168)
Net cash flows used in financing activities	(1,301)	(621)
Net increase (decrease) in cash and cash equivalents	(91)	158

5. Key Financial Ratios

Liquidity Ratio

Liquidity ratio as at end of 2019 was equal to the end of 2018 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 2019 was 82.3 days, improving from the end of 2018 being 110.1 days, due to:

➤ As at the end of 2019, the average number of days for Trade Receivables equaled to 70.7 days, a decrease compared with the end of 2018

Table 7: Key Financial Ratios

Description	Unit	2019	2018
Liquidity Ratio			
Current Ratio	Times	1.0	1.0
Working Capital Ratios			
Collection Period	Days	70.7	78.0
Inventory Turnover Period	Days	52.4	75.8
Payment Period	Days	40.8	43.7
Cash Cycle	Days	82.3	110.1
Profitability Ratios			
Return on Equity	%	(5.4)	1.9
Return on Operating Assets	%	(5.0)	1.7
Financial Structure Ratios			
Debt to Equity	Times	1.1	1.3
Net Interest Bearing Debt to Equity	Times	0.6	0.8

being 78.0 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 2019, the average number of days for Inventories equaled to 52.4 days, a decrease compared with the end of 2018 being 75.8 days. This is due to the procurement and management of raw materials in stock relative to sales and production plan together with releasing many finished goods at the end of the year.

➤ As at the end of 2019, the average number of days for Trade Payables equaled to 40.8 days, a decrease compared with the end of 2018 being 43.7 days. This is due to the decrease in trade payables according to procurement of raw materials in relative with stock management and sales plan.

Profitability Ratios

➤ Return on Equity, as at the end of 2019 was a loss 5.4%, further loss compared with the end of 2018 being profit 1.9% corresponding to the lower operating result from previous year.

➤ Return on Operating Assets, as at the end of 2019 was a loss 5.0%, more loss compared with the end of 2018 being profit 1.7% corresponding to the lower operating result.

Financial Structure Ratios

➤ The Group had Debt to Equity ratio as at the end of 2019 of 1.1 times, a decrease compared with the end of 2018 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 2019 was 0.6 times, a decrease compared with the end of 2018 being 0.8 times as a result of the decrease in proportion of interest-bearing debts more than the decrease in shareholders' equity.

6. Business outlook in 2020

6.1 Plastic Business Line

Household Products

The domestic economic slowdown, intense competition from competitors' imported goods, the prolonged trade war, and the spread of the Coronavirus (officially named COVID-19) may affect sales of both domestic and export. However, the Group has developed the new products continually including environmentally friendly products for domestic and overseas customers, focused on maintaining the customer base in response to customers' needs, as well as introducing marketing channels via social media, apart from streamlining and restructuring the organization, making use of automation in production, and reducing unnecessary expenses.

For overseas operations, although the move of sales channels from traditional trade to modern trade in Vietnam

will tend to stabilize, it is expected that small and medium traditional trade still plays a significant role in upcountry areas. With implemented strategy to expand new customer bases, establish more distributors in the central region of Vietnam, launch new products design and pattern suitable for each customer group, and set the customer service team focusing on targeted customers, it is believed that overseas sales from subsidiary in Vietnam will continue to grow.

Industrial Products

Sales of Beverage packaging products of domestic operation is forecast to slightly decrease from 2019 in line with downward price trend of raw material, even though sales volumes remain stable. Nevertheless, it is expected to have a higher gross profit margin. For the subsidiaries in Vietnam, sales are expected to grow with decent profit due to the continued economic growth of Vietnam and strong support by the Vietnamese government to boost the economy. Therefore, the operations in Vietnam look bright.

Other product groups of domestic operations may still be affected by the economic slowdown and delayed investment by private sector. The sluggish export sector may affect the businesses relating to exports. These may directly affect the domestic operations' industrial products. Sales of overseas operations are expected to increase based on products related to the growth in real estate business, automotive industry, and manufacturing sector in Vietnam such as paint pails, battery cases, and crates etc.

6.2 Moulds and Others Business Line

Sales remain stable in consistent with current economic situation and the automotive industry outlook. However, we expect to recognize more revenue from moulds in the next year as a result of scheduled delivery of the moulds in the pipeline.

Overall, amid dim economic outlook, the Company will continue to transform the organization, consolidate some functions, close a number of unprofitable branches of Direct Sales, delay domestic investment while increase overseas investment particularly in Vietnam, reduce unnecessary costs and expenses, as well as focus on working capital management in order to achieve the highest operational efficiency.

Please be informed accordingly.

Yours faithfully,

Srithai Superware Public Company Limited

Chaiwat Kulphattaravanich

Director and Company Secretary