

SITHAI-0502/63

15 May 2020

Subject Management Discussion and Analysis for Q1/2020

Dear President

The Stock Exchange of Thailand (SET)

With respect to the interim financial information for Q1/2020 which has been reviewed by the external auditor, considered by the Audit Committee, and approved by the Company's Board of Directors on 15 May 2020, the Company wishes to report in summary as follows:

## 1. Summary of Operating Results of the Group

The summary of operating result for Q1/2020 increased from Q1/2019, even though revenues decreased from the previous year. Revenues of Baht 1,923 million, a decrease by Baht 491 million or 20.3% YoY. This was mainly due to the Covid-19 pandemic causing all restaurants and department stores to close, and events suspended including the lockdown which affected the distribution channels and logistics. This resulted in a drop in revenues for both household and industrial products of domestic and overseas operations.

**Table 1: Summary of Operating Results of the Group**

(Unit: Million Baht)	Q1/2020	Q1/2019	%YoY + / (-)
Revenues	1,923	2,414	(20.3%)
Gross Profit	242	259	(6.6%)
Gross Profit (%)	12.6%	10.7%	1.8%
Operating profit	34	25	36.0%
Operating profit margin (%)	1.8%	1.0%	0.7%
EBITDA*	244	239	2.1%
EBITDA Margin (%)	12.7%	9.9%	2.8%
Net profit for the period	38	10	280.0%
Net profit on sales (%)	2.0%	0.4%	1.6%
Profit attributable to equity holders of the Company	36	11	227.3%
Earning per share (Baht)	0.013	0.004	225.0%

Note:

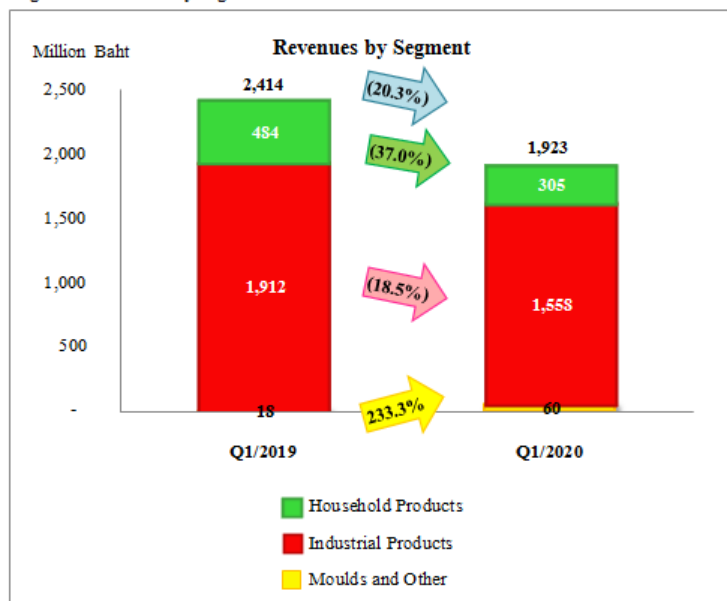
\*EBITDA excluding share of profit from investments in associates

Gross profit of Baht 242 million, decreased by Baht 17 million or 6.6% YoY with gross profit margin of 12.6%, increased from 10.7% in Q1/2019. Increase in gross profit margin resulted mainly from the decrease in raw material price, the adjustment in the product portfolio in line with the strategy, and the improvement in the production process. Selling and administrative expenses decreased due to organizational restructuring last year and the controls of unnecessary expenses. All of which contributed to the Group's operating profit of Baht 34 million, representing operating profit margin of 1.8% compared with operating profit of Baht 25 million (operating profit margin of 1.0%) in Q1/2019.

Earnings before interest, tax, depreciation and amortization (“EBITDA”) of Baht 244 million (EBITDA margin of 12.7%), increased by Baht 5 million or 2.1% YoY. As such, net profit of Q1/2020 was Baht 38 million with a profit attributable to the equity holders of the Company being Baht 36 million. This represents an Earning Per Share of Baht 0.013, an increase from an Earning Per Share of Baht 0.004 YoY.

## 2. Operating Results by Segment

Figure 1: Revenues by Segment



### 2.1 Plastic Business Line

#### 2.1.1 Household Products

Q1/2020 revenues of Household Business Products were Baht 305 million, decreased from Q1/2019 by 37.0%, which can be summarized according to the following operating business bases:

##### ➤ Domestic operations

Revenues dropped from both domestic and export sales. Domestic sales decreased principally from wholesale and direct sale

Table 2: Summary of Operating Results of Household Products

(Unit: Million Baht)	Q1/2020	Q1/2019	%YoY + / (-)
Revenues	305	484	(37.0%)
Domestic operations	247	400	(38.3%)
Overseas operations	58	84	(31.0%)
Operating profit (loss)	(27)	12	(325.0%)
Operating profit (loss) margin (%)	(8.9%)	2.5%	(11.3%)
EBITDA*	(5)	34	(114.7%)
EBITDA Margin (%)	(1.6%)	7.0%	(8.7%)

Note:

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

channels due to the economic contraction and the impact from Covid-19 outbreak particularly when government announced intense measures with orders to temporarily close many businesses including restaurants and department stores except only for supermarkets. As a result, sales from department stores and restaurants decreased and the deliveries were difficult due to the lockdown in some provinces. In addition, export sales were also directly affected by the global spread of Covid-19. Although, the Baht has depreciated against the US Dollar in the Q1/2020 as can be seen from the movement of the Baht/USD (shown in Figure 2), the economic slowdown began to show due to the lockdown in some countries barring the business activities to drive the economy. This resulted in the postponement of shipments to customers, causing the export sales to decline in Q1/2020.

Figure 2: Exchange rate trend Baht per US Dollar



### ➤ Overseas operations

Revenues decreased from subsidiaries both in Vietnam and India due to the impact of the Covid-19. In Vietnam, all restaurants and entertainments were forced to close, and allowed to operate only for take away or delivery. India has been placed on lockdown from mid-March onwards. It resulted in a drop in sales.

The decrease in revenues of Household Business Products led to the operating loss in Q1/2020 amounting to Baht 27 million with operating loss margin of 8.9%, decreased from Q1/2019 with operating profit margin of 2.5% and EBITDA margin declined from positive 7.0% in Q1/2019 to negative 1.6% in Q1/2020. Such decrease in operating margin was derived from the decrease in gross profit in line with lower sales due to the shipment postponement resulting from the Covid-19. Whereas, cost of sales decreased in lower proportion due to low utilization, fixed costs from depreciation, and additional expenses arising from the test and trial of new products such as electricity expenses etc., resulting in small reduction in production costs. Selling and administrative expenses decreased from diminishing export expenses, some fixed expenses decreased from the closure of a number of non-profitable branches of direct sales business, organizational restructuring, and unnecessary costs and expenses cutting. Nevertheless, selling and administrative expenses decreased in lower proportion than the decrease in sales.

### 2.1.2 Industrial Products

Q1/2020 revenues of Industrial Business Products were Baht 1,558 million, decreased by 18.5% YoY. It can be summarized according to the following operating business bases:

#### ➤ Domestic operations

Total revenues were Baht 1,106 million, decreased by Baht 231 million or 17.3% YoY. This was derived mainly from beverage packaging products with regard to

the selling price adjustment in line with falling raw material price, while the sales volume was still close to the previous year especially the packaging for drinking water still performed well. Sales of other industrial products decreased from battery cases and automotive parts of the Group due to the slowdown and the impact of Covid-19 causing the customers in automotive industry to reduce their production capacity.

#### ➤ Overseas operations

Revenues decreased from Q1/2019 due to the selling price adjustment of beverage packaging products of subsidiaries in Vietnam in line with the decrease in raw material price. Although the purchasing power in Vietnam shrunk due to the impact of Covid-19, sales of other industrial products were rarely affected because pre-orders were received until May.

Even though revenues of Industrial Business Products decreased, the operating profit increased with operating profit margin 3.5%, increased from Q1/2019 at operating profit margin of 1.6% and EBITDA margin increased from 10.4% in Q1/2019 to 13.5% in Q1/2020. Such increase in operating margin was derived from the increase in gross profit due to main raw material prices had decreased (shown in Figure 3), the sales proportion adjustment of product portfolio in line with the strategy, and production process improvement, while the selling and administrative expenses decreased slightly because of the recognition for loss from impairment of fixed assets this quarter.

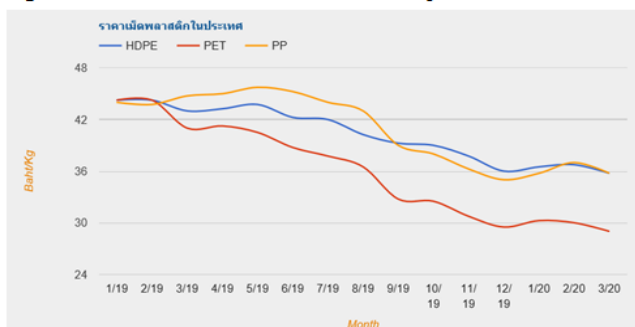
**Table 3: Summary of Operating Results of Industrial Products**

(Unit: Million Baht)	Q1/2020	Q1/2019	%YoY + / (-)
Revenues	1,558	1,912	(18.5%)
Domestic operations	1,106	1,337	(17.3%)
Overseas operations	452	575	(21.4%)
Operating profit	54	30	80.0%
Operating profit margin (%)	3.5%	1.6%	1.9%
EBITDA*	210	199	5.5%
EBITDA Margin (%)	13.5%	10.4%	3.1%

Note:

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

**Figure 3: Trend of main raw materials historical price from 2019**



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

## 2.2 Moulds and Others Business Line

Q1/2020 revenues of the Moulds and Others Business Line were Baht 60 million, increased by 233.3% from Q1/2019. The increase of moulds business was due to the delivery of moulds by the subsidiaries. No sales from Network Business as it became part of direct sales business at the end of 2019.

Operating profit of Moulds and Others

Business Line was Baht 6 million, increased from Q1/2019 incurring a loss of Baht 17 million. Operating profit margin was 10.0% in Q1/2020 compared with loss margin of 94.4% in Q1/2019 and EBITDA margin was positive 15.0%. EBITDA margin improved from loss margin of 72.2% in the previous year due to more revenue generated by closely monitoring the delivery of moulds to customers.

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

(Unit: Million Baht)	Q1/2020	Q1/2019	%YoY + / (-)
Revenues	60	18	233.3%
Moulds	60	15	300.0%
Others	0	3	(100.0%)
Operating profit (loss)	6	(17)	(135.3%)
Operating profit (loss) margin (%)	10.0%	(94.4%)	104.4%
EBITDA*	9	(13)	(169.2%)
EBITDA Margin (%)	15.0%	(72.2%)	87.2%

Note:

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

## 3. Financial Position

As at 31 March 2020, compared with the end of 2018,

The Group had total assets of Baht 8,606 million, an increase of Baht 134 million, which comprised the key items as follows:

➤ Trade receivables of Baht 1,813 million, increased by Baht 76 million from the increase in sales of pallets and containers because of receiving higher orders for containers from modern trade.

➤ Inventories of Baht 1,168 million, decreased by Baht 9 million, due to the established policy of production

based on orders received from customers, in order to reduce stocks and clear excess inventories of the Group to increase liquidity and working capital, together with the delivery of moulds of subsidiaries.

➤ Property, Plant and Equipment of Baht 4,147 million, decreased by Baht 38 million due mainly to depreciation

**Table 5: Key items in Statement of financial position**

(Unit: Million Baht)	31 Mar 20	31 Dec 19	Increase (Decrease)
Trade receivables	1,813	1,737	76
Inventories	1,168	1,177	(9)
Property, plant and equipment	4,147	4,185	(38)
Total assets*	8,606	8,472	134
Trade payables	989	916	73
Short-term loans	1,738	1,703	35
Long-term loans	1,020	1,147	(127)
Total liabilities*	4,608	4,526	82
Total shareholders' equity*	3,998	3,946	52

Note:

\*Total lines extracted from Statements of Financial Position

and amortization.

➤ In addition, other receivables increased by Baht 58 million from advance payments for machinery and moulds of subsidiaries in Vietnam for increasing capacity.

Total liabilities of Baht 4,608 million, increased by Baht 82 million which comprised the key items as follows:

➤ Trade payable of Baht 989 million, increased by Baht 73 million from negotiations to extend payment terms with certain suppliers in order to increase liquidity for the business.

➤ Total loans of Baht 2,758 million, decreased by Baht 92 million, consisted of the increase in short-term loans by Baht 35 million and the decrease in long-term loans by Baht 127 million due principally to repayment of long term loans to reduce the interest expenses.

Total shareholders' equity of Baht 3,998 million, increased by Baht 52 million, deriving from operating profit, exchange rate differences on translation of financial statements in foreign currency, and the impact of changes in accounting policies from adoption of financial reporting standards for financial instrument.

## 4. Cash flow

The Group had an increase in cash and cash equivalents by Baht 36 million, consisting of:

➤ Cash flow from operating activities were Baht 213 million mainly from the increase in trade payables and other payables due to

extension of payment term, while trade receivables increased from pallets and containers sales.

➤ Cash flow used in investment activities were Baht 65 million, slightly changed compared to prior year.

➤ Cash flow used in financing activities were Baht 112 million, lower than Q1/2019 due to reduced principal repayment of long term loans as scheduled.

As at 31 March 2020, 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 has sufficient cash flow for its operations.

**Table 6: Cash flow statement**

(Unit: Million Baht)	3 months	3 months
	2020	2019
Net cash flows from operating activities	213	109
Net cash flows used in investing activities	(65)	(63)
Net cash flows used in financing activities	(112)	(178)
Net increase (decrease) in cash and cash equivalents	36	(132)

## 5. Key Financial Ratios

### Liquidity Ratio

Liquidity ratio as at end of Q1/2020 was equal to 1.0 time, decreased from the end of Q1/2019 being 1.1 times. This is due to the policy on collection of trade receivables and the release of inventories. Simultaneously, the interest-bearing debt decreased together with the extension of payment term for trade payables helped increase cash flow liquidity of the Group. However, the Group is confident that current assets were sufficient against payment of current liabilities.

### Working Capital Ratios

Cash Cycle as at the end of Q1/2020 was 94.4 days, improving from the end of Q1/2019 being 111.4 days, due to:

- As at the end of Q1/2020, the average number of days for Trade Receivables equaled to 84.8 days, an increase compared with the end of Q1/2019 being 81.8 days. This is due to the decrease in trade receivables in lower proportion than the decrease in sales.
- As at the end of Q1/2020, the average number of days for Inventories equaled to 62.5 days, a decrease compared with the end of Q1/2019 being 68.5 days. This is due to the procurement and management of raw materials in stock relative to sales and production plan together with reduction of finished goods at the end of the year.
- As at the end of Q1/2020, the average number of days for Trade Payables equaled to 52.9 days, an increase compared with the end of Q1/2019 being 38.8 days. This is due to the extension of payment term for some suppliers in order to maintain the Company's liquidity.

### Profitability Ratios

- Return on Equity, as at the end of Q1/2020 was 1.0%, improved compared with the end of Q1/2019 being 0.2% corresponding to the higher operating result from previous year, while shareholders' equity decreased from the previous year.
- Return on Operating Assets, as at the end of Q1/2020 was 0.9%, improved compared with the end of Q1/2019 being 0.2%, as result of higher operating result, while operating assets decreased mainly from depreciation and amortisation.

Table 7: Key Financial Ratios

Description	Unit	Q1/2020	Q1/2019
<b>Liquidity Ratio</b>			
Current Ratio	Times	1.0	1.1
<b>Working Capital Ratios</b>			
Collection Period	Days	84.8	81.8
Inventory Turnover Period	Days	62.5	68.5
Payment Period	Days	52.9	38.8
Cash Cycle	Days	94.4	111.4
<b>Profitability Ratios</b>			
Return on Equity	%	1.0	0.2
Return on Operating Assets	%	0.9	0.2
<b>Financial Structure Ratios</b>			
Debt to Equity	Times	1.2	1.3
Net Interest Bearing Debt to Equity	Times	0.6	0.8



## Financial Structure Ratios

➤ The Group had Debt to Equity ratio as at the end of Q1/2020 of 1.2 times, a decrease compared with the end of Q1/2019 being 1.3 times. This is due to an overall decrease in debts especially interest-bearing debts more than the decrease in shareholders' equity.

➤ Net interest bearing debts to equity of the Group at the end of Q1/2020 was 0.6 times, a decrease compared with the end of Q1/2019 being 0.8 times, as a result of the decrease of interest-bearing debts in higher proportion than the decrease in shareholders' equity.

## 6. Significant Event during Q1/2020

### 6.1 Significant change in accounting policies

#### Adoption of the Thai Financial Reporting Standards related to financial instruments

The Group adopted the financial reporting standards with the cumulative effect being recognized as an adjustment to the retained earnings as at 1 January 2020, and the comparative information was not restated. The impact of the adoption of these standards on the Group's financial statements on 1 January 2020 can be summarized as follows:

- Classification and measurement of investments in equity instruments of non-listed companies – The Group measures such investments at fair value and classifies the investments as financial assets at fair value, through other comprehensive income.

- Recognition of credit losses – The Group applies the simplified approach to consider impairment of trade receivables.

- Recognition of derivatives – The Group initially recognizes derivatives at their fair value on the contract date and subsequently measures them at fair value at the end of each reporting period. Changes in the fair value of derivatives are recognized in profit or loss.

(Unit: Million Baht)	The impacts of Financial reporting standards related to financial instruments		
	31 Dec 19		1 Jan 20
<b>Statement of financial position</b>			
<u><b>Assets</b></u>			
Trade receivables	1,737	(26)	1,711
Other non-current financial assets	-	132	132
Available-for-sale investments	34	(34)	-
Other long-term investments	113	(113)	-
Deferred tax assets	231	(8)	223
<i>Total impacts on total assets</i>		<i>(49)</i>	
<u><b>Shareholders' equity</b></u>			
Retained earnings - Unappropriated	1,093	(26)	1,067
Other components of shareholders' equity	(390)	(25)	(415)
Non-controlling interests	250	2	252
<i>Total impacts on total shareholders' equity</i>		<i>(49)</i>	



### Adoption of the Thai Financial Reporting Standard No. 16 (TFRS 16) : Leases

The Group adopted this financial reporting standard using the modified retrospective method of initial adoption of with the cumulative effect being recognized as an adjustment to the retained earnings as at 1 January 2020, and the comparative information was not restated. The change in accounting policy has the effects on the increase in both total assets and liabilities by Baht 65 million as follows:

(Unit: Million Baht)	31 Dec 19	The impacts of TFRS 16 Leases	1 Jan 20
<b>Statement of financial position</b>			
<b>Assets</b>			
Other receivables - unrelated parties	56	(3)	53
Property, plant and equipment	4,186	(3)	4,183
Right-of-use assets	-	195	195
Leasehold rights	124	(124)	-
<i>Total impacts on total assets</i>		65	
<b>Liabilities</b>			
Other payables - unrelated parties	299	(1)	298
Current portion of long-term lease liabilities	-	17	17
Long-term lease liabilities, net of current portion	-	47	47
Finance lease liabilities	1	(1)	-
Other non-current liabilities	-	3	3
<i>Total impacts on total liabilities</i>		65	

## 7. Business outlook in Q2/2020

### 7.1 Plastic Business Line

#### Household Products

The Covid-19 pandemic continuously affects people's lives to keep social distance, causing the businesses to adapt to the "New Normal", which may take longer time to recover. Therefore, it is expected that Q2/2020 domestic sales may not meet the target. For export sales, we will continue to monitor the situation closely and focus on the order shipments which have been delayed from Q1/2020, however, this depends on the Covid-19 situation. The Group has prepared the design of new patterns, the introduction of new concepts, and the development of new raw materials in order to launch new products instantly when the situation of Covid-19 improves, along with the use of automation in production in order to reduce production cost.

For overseas operations, the uncertainty of the Covid-19 outbreak may affect sales of subsidiaries in Vietnam and India, and may change consumers' behavior to socialize, shop and purchase of goods. In addition, the impact of Covid-19 may make consumers become aware of cleanliness and hygiene. Therefore, it may be a good opportunity to present the selling point of our products which are made from 100% melamine, with hygienic and durable attributes, together with offering attractive promotional campaign as well as selling online.

**Industrial Products**

Sales of Beverage packaging products of domestic operation is forecast to decrease in Q2/2020 since the restaurants and department stores may not be fully operated as usual. The delay of festivals and promotional events may affect sales of soft drinks, while drinking water sales are performing well. For operations in Vietnam, sales are expected to decrease slightly because there are a small number of infected people in Vietnam and the government has certain measures for economic recovery. It is expected that gross profit margin will remain close to the first quarter.

Other product groups of domestic and overseas operations may still be affected by the Covid-19 situation which still need to watch closely. However, the overseas operation has adjusted its strategies and explored new markets to offer hygiene-related products, such as containers for convenience stores and parts of air purifier, etc. Moreover, investment in new technology is planned to reduce production costs and increase competitiveness.

**7.2 Moulds and Others Business Line**

Sales remain stable in consistent with the automotive industry outlook and uncertain situation of Covid-19.

Overall, the implementation of organizational restructuring, the consolidation of certain job functions, the closure of unprofitable branches of Direct Sales in the previous year have contributed to Company's cost savings. However, external factors particularly Covid-19 since the beginning of this year, may cause the drastic drop in sales. The Company therefore has closely monitored this situation, and adjusted the strategies to accommodate and minimize various impacts, while controlling costs and focusing on liquidity and working capital management.

Please be informed accordingly.

Yours faithfully,

**Srithai Superware Public Company Limited**

Chaiwat Kulphattaravanich

Director and Company Secretary