

SITHAI-0801/63

13 August 2020

Subject Management Discussion and Analysis for Q2/2020

Dear President

The Stock Exchange of Thailand (SET)

With respect to the interim financial information for Q2/2020 which has been reviewed by the external auditor, considered by the Audit Committee, and approved by the Company's Board of Directors on 13 August 2020, the Company wishes to report in summary as follows:

1. Summary of Operating Results of the Group

The summary of operating result for Q2/2020 slightly increased from Q2/2019, but decreased from Q1/2020. Revenues in Q2/2020 amounted to Baht 1,547 million, decreasing by Baht 712 million (31.5%) YoY and Baht 376 million (19.6%) QoQ from the Covid-19 pandemic has ravaged the global economy. The lockdown measures as well as travel restrictions to control the outbreak also contributed to a major drop

Table 1: Summary of Operating Results of the Group

(Unit: Million Baht)	Q2/2020	Q1/2020	Q2/2019	%YoY + / (-)	%QoQ + / (-)
Revenues	1,547	1,923	2,259	(31.5%)	(19.6%)
Gross Profit	129	242	201	(35.8%)	(46.7%)
Gross Profit (%)	8.4%	12.6%	8.9%	(0.5%)	(4.2%)
Operating profit (loss)	(40)	34	(45)	(11.1%)	(217.6%)
Operating profit (loss) margin (%)	(2.6%)	1.8%	(2.0%)	(0.6%)	(4.4%)
EBITDA*	156	244	159	(1.9%)	(36.1%)
EBITDA Margin (%)	10.1%	12.7%	7.0%	3.0%	(2.6%)
Net profit (loss) for the period	(64)	38	(65)	(1.5%)	(268.4%)
Net profit (loss) on sales (%)	(4.1%)	2.0%	(2.9%)	(1.3%)	(6.1%)
Profit (loss) attributable to equity holders of the Company	(58)	36	(64)	(9.4%)	(261.1%)
Earning (loss) per share (Baht)	(0.021)	0.013	(0.023)	(8.7%)	(261.5%)

Note:

*EBITDA excluding share of profit from investments in associates

in revenues for both household and industrial products of domestic and overseas operations.

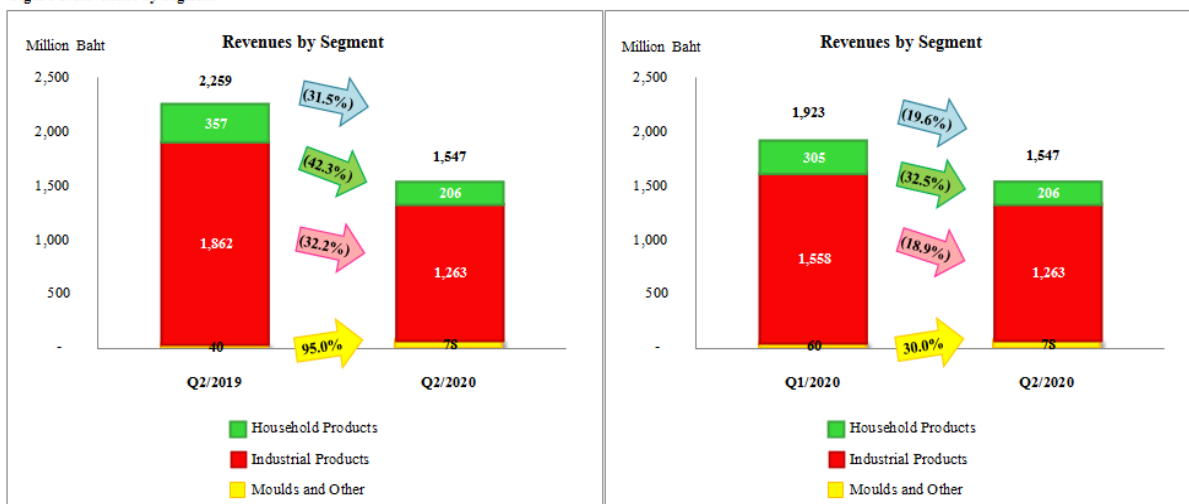
Gross profit in Q2/2020 amounted to Baht 129 million, decreasing by Baht 72 million (35.8%) YoY and Baht 113 million (46.7%) QoQ. Gross profit margin accounted for 8.4%, which decreased from 8.9% in Q2/2019 and 12.6% in Q1/2020. Decrease in gross profit margin resulted from domestic and export sales. This resulted in lower capacity utilization. Although the personnel costs reduced, other fixed overhead costs were remained. The Group's operating loss amounted to Baht 40 million and accounted for 2.6%, compared with operating loss of Baht 45 million representing 2.0% in Q2/2019 and operating profit of Baht 34 million representing 1.8% in Q1/2020.

Earnings before interest, tax, depreciation and amortization ("EBITDA") in Q2/2020 amounted to Baht 156 million (EBITDA margin of 10.1%), decreasing by Baht 3 million or 1.9% YoY and Baht 88 million or 36.1% QoQ. As

such, net loss of Q2/2020 amounted to Baht 64 million with a loss attributable to the equity holders of the Company being Baht 58 million. This represents a Loss Per Share of Baht 0.021, an increase from a Loss Per Share of Baht 0.023 in Q2/2019.

2. Operating Results by Segment

Figure 1: Revenues by Segment



2.1 Plastic Business Line

2.1.1 Household Products

Revenues of Household Products amounted to Baht 206 million, decreasing 42.3% YoY and 32.5% QoQ, 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

channels due to the peak Covid-19 impacts and disease control measures which hit hard to industries including hotels, department stores, and restaurants. In addition, lower employment and household income reduced consumer confidence. As a result, sales from the restaurants business and the marketing activities in the department stores decreased. In addition, export sales were also directly affected by the global spread of Covid-19. This resulted in the order cancellation or shipment delay of certain customers. In Q1/2020, the Baht depreciated against the US Dollar and strongly rebounded in

Table 2: Summary of Operating Results of Household Products

(Unit: Million Baht)	Q2/2020	Q1/2020	Q2/2019	%YoY +/(%)	%QoQ +/(%)
Revenues	206	305	357	(42.3%)	(32.5%)
Domestic operations	164	247	283	(42.0%)	(33.6%)
Overseas operations	42	58	74	(43.2%)	(27.6%)
Operating profit (loss)	(54)	(27)	(37)	45.9%	100.0%
Operating profit (loss) margin (%)	(26.2%)	(8.9%)	(10.4%)	(15.8%)	(17.4%)
EBITDA*	(30)	(5)	(16)	87.5%	500.0%
EBITDA Margin (%)	(14.6%)	(1.6%)	(4.5%)	(10.1%)	(12.9%)

Note:

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

Q2/2020 as can be seen from the movement of the Baht/USD (shown in Figure 2). All of these resulted in the decrease in overall domestic and export sales from the same period last year and previous quarter.

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 pandemic. In Vietnam, intensive disease control measures were implemented from late March to April. The most impact channels were distributors and wholesalers in traditional trade group, and restaurants that have been forced to temporarily closed, resulting in lower sales. India announced lockdown measures from mid-March to early June, which caused the factory to temporary closed and started to gradually operate when containment measures were eased. It resulted in a drop in sales from the same period last year and previous quarter.

The decrease in revenues of Household Products led to the operating loss in Q2/2020 amounting to Baht 54 million with operating loss margin of 26.2%, decreased from Q2/2019 and Q1/2020 with operating loss margin of 10.4% and 8.9%, respectively. EBITDA margin declined from negative 4.5% in Q2/2019 and negative 1.6% in Q1/2020 to negative 14.6% in Q2/2020. Such decrease in operating margin was derived from the decrease in gross profit in line with lower sales due to the shipment delay. In addition, the economic recession undermined consumer purchasing power resulting from the Covid-19. Whereas, cost of sales decreased in lower proportion. Although, the personnel costs reduced, other fixed overhead costs such as depreciation, electricity, and other factory expenses were remained with low utilization, 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 compared with the same period last year and previous quarter.

2.1.2 Industrial Products

Revenues of Industrial Products amounted to Baht 1,263 million, decreasing 32.2% YoY and 18.9% QoQ. It can be summarized according to the following operating business bases:

➤ Domestic operations

Decrease in revenues from Q2/2019 and Q1/2020 were derived mainly from both industrial and beverage packaging

products. The decrease in sales of industrial products came from the Covid-19 pandemic affecting on:

- Battery cases and automotive products with supply chain disruption. Main raw material parts shortages from manufacturers located in Covid-19 outbreaks countries put a halt to production lines and resulted in factories closures, particularly among automotive industry in line with the sluggish economy.
- A drop in paint pails following the slowdown in real estate sector.
- Containers, crates, and pallets declined following a slowdown in orders from retailers, restaurants, and automotive customers.

Sales of beverage packaging products decreased by the selling price adjustment in line with falling raw material price, and the effect from the food and beverage manufacturing business which faced a severe shrinkage in consumer purchasing power and disease control measures. The cease of marketing events and activities including the holiday postponement during the Songkran festival resulted in lower consumption.

➤ Overseas operations

Revenues decreased from Q2/2019 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 have increased from the previous year and the previous quarter since it received orders for dry food containers from convenience stores customers.

Revenues of Industrial Products decreased resulting in lower operating profit. The operating profit in Q2/2020 accounted for 0.2%, decreasing from 0.4% in Q2/2019 and 3.5% in Q1/2020. EBITDA margin accounted for 12.2%, which increased from 9.3% in Q2/2019 but decreased from 13.5% in Q1/2020. Selling and administrative expenses

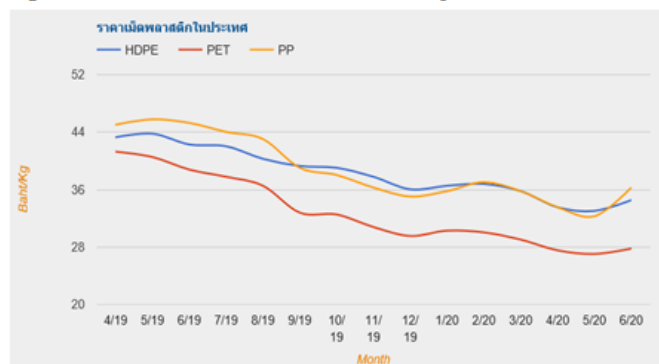
Table 3: Summary of Operating Results of Industrial Products

(Unit: Million Baht)	Q2/2020	Q1/2020	Q2/2019	%YoY +/(−)	%QoQ +/(−)
Revenues	1,263	1,558	1,862	(32.2%)	(18.9%)
Domestic operations	786	1,106	1,254	(37.3%)	(28.9%)
Overseas operations	477	452	608	(21.5%)	5.5%
Operating profit	2	54	8	(75.0%)	(96.3%)
Operating profit margin (%)	0.2%	3.5%	0.4%	(0.3%)	(3.3%)
EBITDA*	154	210	173	(11.0%)	(26.7%)
EBITDA Margin (%)	12.2%	13.5%	9.3%	2.9%	(1.3%)

Note:

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

reduced less in proportion than the drop in sales, although the gross margin increased slightly YoY, but decreased from the previous quarter due to the declining trend of main raw material prices compared with the previous year, but slightly increased in Q2/2020 (shown in Figure 3). As a result, operating profit decreased from the previous year and the previous quarter.

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


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

2.2 Moulds and Others Business Line

Revenues of the Moulds and Others Business Line in Q2/2020 amounted to Baht 78 million, increasing 95.0% YoY and 30.0% QoQ. The increase of moulds business was due to the delivery of moulds by the subsidiaries. While there were 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 amounted to Baht 12 million, and operating profit margin accounted for 15.4%, which increased from operating loss of Baht 16 million in Q2/2019 and operating profit of Baht 6 million in Q1/2020. EBITDA margin was positive 17.9%, which increased from negative 30.0% in Q2/2019 and positive 15.0% in Q1/2020. The delivery of moulds to customers made more revenue recognition for Moulds Business.

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

(Unit: Million Baht)	Q2/2020	Q1/2020	Q2/2019	%YoY +/(−)	%QoQ +/(−)
Revenues	78	60	40	95.0%	30.0%
Moulds	78	60	37	110.8%	30.0%
Others	0	0	3	(100.0%)	0.0%
Operating profit (loss)	12	6	(16)	(175.0%)	100.0%
Operating profit (loss) margin (%)	15.4%	10.0%	(40.0%)	55.4%	5.4%
EBITDA*	14	9	(12)	(216.7%)	55.6%
EBITDA Margin (%)	17.9%	15.0%	(30.0%)	47.9%	2.9%

Note:

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

3. Financial Position

As at 30 June 2020, compared with the end of 2019, the Group had total assets of Baht 8,067 million, a decrease of Baht 405 million, which comprised the key items as follows:

➤ Trade receivables amounted to Baht 1,388 million, decreased by Baht 349 million from close monitoring of debt collection and corresponding with the decrease in sales.

➤ Inventories amounted to Baht 1,076 million, decreased by Baht 101 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 amounted to Baht 4,013 million, decreased by Baht 172 million due mainly to depreciation and amortization. While subsidiaries in Vietnam invested in additional machinery in order to expand the market.

Total liabilities amounted to Baht 4,180 million, decreased by Baht 346 million which comprised the key items as follows:

➤ Trade payable amounted to Baht 741 million, decreased by Baht 175 million from reducing purchase orders in line with sale orders from customers.

➤ Total loans amounted to Baht 2,621 million, decreased by Baht 229 million, consisted of the decrease in short-term loans by Baht 9 million and the decrease in long-term loans by Baht 220 million due principally to repayment of long term loans as scheduled.

Total shareholders' equity amounted to Baht 3,887 million, decreased by Baht 59 million, deriving from operating loss as well as the impact of changes in accounting policies from adoption of financial reporting standards for financial instruments.

Table 5: Key items in Statement of financial position

(Unit: Million Baht)	30 Jun 20	31 Dec 19	Increase (Decrease)
Trade receivables	1,388	1,737	(349)
Inventories	1,076	1,177	(101)
Property, plant and equipment	4,013	4,185	(172)
Total assets*	8,067	8,472	(405)
Trade payables	741	916	(175)
Short-term loans	1,694	1,703	(9)
Long-term loans	927	1,147	(220)
Total liabilities*	4,180	4,526	(346)
Total shareholders' equity*	3,887	3,946	(59)

Note:

*Total lines extracted from Statements of Financial Position

4. Cash flow

The Group had an increase in cash and cash equivalents by Baht 154 million, consisting of:

➤ Cash flow from operating activities amounted to Baht 530 million lower than last year mainly from the decrease in trade payables and other payables due to low orders in line with sales.

➤ Cash flow used in investment activities amounted to Baht 130 million, increased from prior year due to additional acquisition fixed assets in order to increase production capacity of subsidiaries in Vietnam.

➤ Cash flow used in financing activities amounted to Baht 246 million, lower than prior year due to reduced principal repayment of long term loans as scheduled and additional withdrawal long term loan of subsidiaries in Vietnam.

As at 30 June 2020, the Group still had available unused credit facilities totaling more than Baht 3 billion comprising overdraft facilities, working capital and long term loan credit lines. As such, the Group had sufficient cash flow for its operations.

Table 6: Cash flow statement

(Unit: Million Baht)	6 months	6 months
	2020	2019
Net cash flows from operating activities	530	576
Net cash flows used in investing activities	(130)	(72)
Net cash flows used in financing activities	(246)	(591)
Net increase (decrease) in cash and cash equivalents	154	(87)

5. Key Financial Ratios

Liquidity Ratio

Liquidity ratio as at end of Q2/2020 accounted for 1.0 time, approximately the same with Q2/2019 and Q1/2020 being 1.0 time. 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 are sufficient against payment of current liabilities.

Table 7: Key Financial Ratios

Description	Unit	Q2/2020	Q1/2020	Q2/2019
Liquidity Ratio				
Current Ratio	Times	1.0	1.0	1.0
Working Capital Ratios				
Collection Period	Days	80.7	84.8	83.3
Inventory Turnover Period	Days	68.3	62.5	67.8
Payment Period	Days	47.0	52.9	40.5
Cash Cycle	Days	102.0	94.4	110.6
Profitability Ratios				
Return on Equity	%	(1.6)	1.0	(1.6)
Return on Operating Assets	%	(1.6)	0.9	(1.4)
Financial Structure Ratios				
Debt to Equity	Times	1.1	1.2	1.3
Net Interest Bearing Debt to Equity	Times	0.6	0.6	0.8

Working Capital Ratios

Cash Cycle as at the end of Q2/2020 was 102.0 days, improving from the end of Q2/2019 being 110.6 days, but increased

from 94.4 days at the end of Q1/2020 due to:

- As at the end of Q2/2020, the average number of days for Trade Receivables equaled to 80.7 days, improved from 83.3 days of Q2/2019 and 84.8 days of Q1/2020. This is due to the decrease in trade receivables in higher proportion than the decrease in sales.
- As at the end of Q2/2020, the average number of days for Inventories equaled to 68.3 days, increased from 67.8 days of Q2/2019 and 62.5 days of Q1/2020. This is due to the more proportion of inventories than costs of sales.
- As at the end of Q2/2020, the average number of days for Trade Payables equaled to 47.0 days, increased from 40.5 days of Q2/2019 but decreased from 52.9 days of Q1/2020. This is due to the extension of payment term with certain suppliers to strengthen the Company's liquidity.

Profitability Ratios

- Return on Equity, as at the end of Q2/2020 was a loss of 1.6%, approximately the same with Q2/2019 but decreased from profit of 1.0% of Q1/2020 corresponding to the lower operating result from previous year, while shareholders' equity decreased from the previous year.
- Return on Operating Assets, as at the end of Q2/2020 was a loss of 1.6%, decreased from a loss of 1.4% of Q2/2019 and profit of 0.9% of Q1/2020, as result of lower operating result, while operating assets decreased mainly from depreciation and amortization.

Financial Structure Ratios

- The Group had Debt to Equity ratio as at the end of Q2/2020 of 1.1 times, decreased from 1.3 times of Q2/2019 and 1.2 times of Q1/2020. 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 Q2/2020 was 0.6 times, decreased from 0.8 times of Q2/2019 but approximately the same with Q1/2020 being 0.6 times, as a result of the decrease of interest-bearing debts in higher proportion than the decrease in shareholders' equity.

6. Business outlook in 2nd half of 2020

6.1 Plastic Business Line

Household Products

Following the lower number of Covid-19 infections in Thailand, Thailand's economy has been forecast to improve after the Thai government has relaxed certain strict measures together with further support and economic stimulus packages, which will create more spending on the necessary products and services for daily life to strengthen the economic resilience. Therefore, it is expected that domestic sales in the second half of the year will improve. For export sales, we will continue to monitor the situation closely. As many countries began to slowly ease lockdown measures and travel, it is

likely that exports in the second half of the year will improve.

For overseas operations, the uncertainty of the Covid-19 outbreak may affect sales of subsidiaries both in Vietnam and India. Despite the delay in easing the lockdown, it is expected that sales in India will improve in the fourth quarter for festival events. The release of inventories as well as the introduction of new patterns for gifts and special promotions to attract the distributors and retailers including sales via online channel are in the pipeline.

Industrial Products

Sales of Beverage packaging products of domestic operation is forecast to decrease in Q3/2020 since Thailand enters the rainy season, and some provinces have suffered from natural drought. Although the Thai economy tends to recover gradually, certain businesses are hit hard by the Covid-19 pandemic such as restaurants and hotels which are likely to recover slowly. Therefore, it may affect domestic sales of beverage packaging. For operations in Vietnam, sales are expected to be stable following the Vietnam's economic recovery, while the government's economic stimulus package through tax relief measures and financial aid for citizens. However, gross profit margin is expected to remain close to the previous quarter.

Other product groups of domestic and overseas operations may still need to monitor the impact of Covid-19 and economic situation continuously. Nevertheless, the strategy for overseas operation is aimed to increase sales by developing new products for existing customers and expanding new customer bases in OEM group. Moreover, investment in new technology is planned to reduce production costs and increase competitiveness.

6.2 Moulds and Others Business Line

Sales remain stable in consistent with the automotive industry outlook along with uncertainty in Covid-19 situation. However, the Group has continuously monitored to deliver moulds to the customers.

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 all contributed to the Group's cost savings. However, external factors particularly Covid-19 since the beginning of this year, may cause 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.

7. Subsequent event

7.1 Business restructuring

On 29 April 2020, the Annual General Meeting of Shareholders of the Company passed a resolution to approve the Company's partial business transfer to Korat Thai Tech Company Limited ("Korat Thai Tech"), a wholly owned subsidiary, with the objective of centralizing the main production base of household products business unit in Thailand under a single company.

On 29 June 2020, the Company entered into the partial business transfer agreement with Korat Thai Tech to transfer production line and wholesale and export distribution channels (excluding direct sales and retail distribution channels) of household products business unit comprising operating assets, liabilities, and a number of employees to Korat Thai Tech.

On 1 August 2020, the transfer transaction was completed. The book value of the transferred assets and liabilities related to the transfer as at 30 June 2020 amounted approximately to Baht 282 million and Baht 123 million, respectively.

Please be informed accordingly.

Yours faithfully,

Srithai Superware Public Company Limited

Chaiwat Kulphattaravanich

Director and Company Secretary