

SITHAI-1101/63

11 November 2020

Subject Management Discussion and Analysis for Q3/2020

Dear President

The Stock Exchange of Thailand

With respect to the interim financial information for Q3/2020 which has been reviewed by the external auditor, considered by the Audit Committee, and approved by the Company's Board of Directors on 11 November 2020, the Company wishes to report in summary as follows:

1. Summary of Operating Results of the Group

The summary of operating result for Q3/2020 improved from Q2/2020 and Q3/2019 with lower loss. Revenues in Q3/2020 amounted to Baht 1,698 million, increasing by Baht 151 million or 9.8% QoQ, but decreasing by Baht 354 million or 17.3% YoY due to relaxed restrictions and disease control measures of Covid-19. The Covid-19 pandemic has ravaged the global economy causing many businesses closures and increasing unemployment.

Table 1: Summary of Operating Results of the Group

(Unit: Million Baht)	Q3/2020	Q2/2020	Q3/2019	%QoQ +/(-)	%YoY +/(-)
Revenues	1,698	1,547	2,052	9.8%	(17.3%)
Gross Profit	164	129	193	27.1%	(15.0%)
Gross Profit (%)	9.7%	8.4%	9.4%	1.3%	0.3%
Operating profit (loss)	(18)	(40)	(36)	55.0%	50.0%
Operating profit (loss) margin (%)	(1.1%)	(2.6%)	(1.8%)	1.5%	0.7%
EBITDA*	179	156	170	14.7%	5.3%
EBITDA Margin (%)	10.5%	10.1%	8.3%	0.5%	2.3%
Net profit (loss) for the period	(34)	(64)	(47)	46.9%	27.7%
Net profit (loss) on sales (%)	(2.0%)	(4.1%)	(2.3%)	2.1%	0.3%
Profit (loss) attributable to equity holders of the Company	(31)	(58)	(52)	46.6%	40.4%
Earning (loss) per share (Baht)	(0.012)	(0.021)	(0.019)	42.9%	36.8%

Note:

*EBITDA excluding share of profit from investments in associates

Although, certain disease control measures have been eased in Q3/2020, people are still concerned and cautious of spending. As a result, sales of household and industrial products of both domestic and overseas operations decreased from the previous year, but increased from Q2/2020.

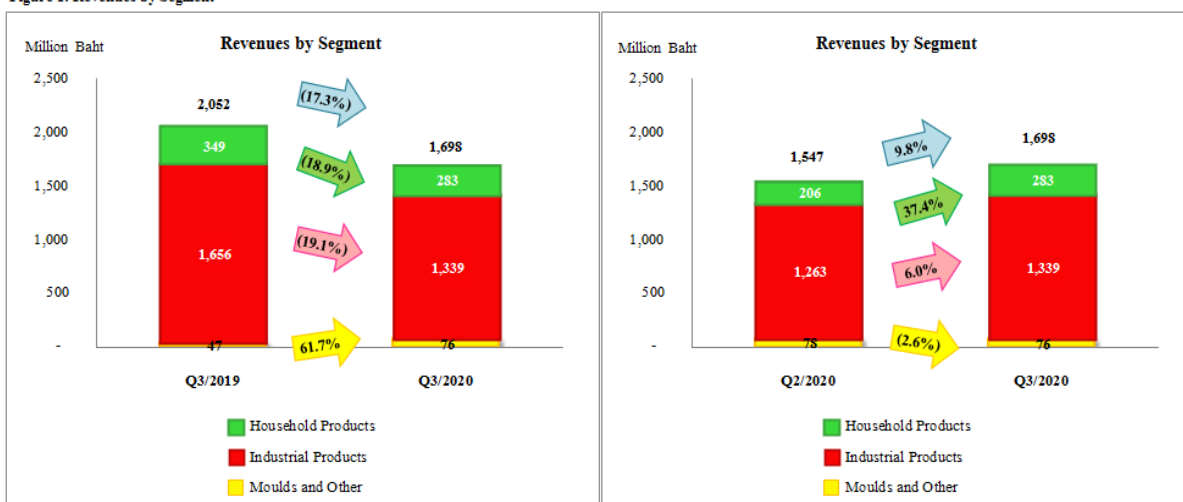
Gross profit in Q3/2020 amounted to Baht 164 million, increasing by Baht 35 million or 27.1% QoQ, but decreasing by Baht 29 million or 15.0% YoY. Gross profit margin accounted for 9.7%, which increased from 8.4% in Q2/2020 and 9.4% in Q3/2019. Increase in gross profit margin resulted from the Group restructuring, the improvement of production efficiency, the reduction of personnel appropriate for production utilization and organization size, and the lower price of main raw materials. The Group's operating loss amounted to Baht 18 million and accounted for 1.1% of revenues, compared with operating loss of Baht 40 million and Baht 36 million in Q2/2020 and Q3/2019 representing

2.6% and 1.8% of revenues, respectively.

Earnings before interest, tax, depreciation and amortization (“EBITDA”) in Q3/2020 amounted to Baht 179 million or EBITDA margin of 10.5%, increasing by Baht 23 million or 14.7% QoQ, and Baht 9 million or 5.3% YoY. As such, net loss of Q3/2020 amounted to Baht 34 million with a loss attributable to the equity holders of the Company being Baht 31 million. This represents a Loss Per Share of Baht 0.012, a decrease from a Loss Per Share of Baht 0.021 in Q2/2020 and Baht 0.019 in Q3/2019.

2. Operating Results by Segment

Figure 1: Revenues by Segment



2.1 Plastic Business Line

2.1.1 Household Products

Revenues of Household Products in Q3/2020 amounted to Baht 283 million, increasing 37.4% QoQ, but decreasing 18.9% YoY, which can be summarized according to the following operating business bases:

➤ Domestic operations

Domestic sales decreased principally from the peak of Covid-19 pandemic, especially in Q2/2020 reflecting the harsh impacts and significant decrease in sales. More business bankruptcy has led to layoffs and unemployment. After lockdown easing, several economic activities have improved, with gradual recovery of the economy. In addition, export sales were also directly affected by the global spread of Covid-19. Export sales in Q3/2020 increased

Table 2: Summary of Operating Results of Household Products

(Unit: Million Baht)	Q3/2020	Q2/2020	Q3/2019	%QoQ +/(-)	%YoY +/(-)
Revenues	283	206	349	37.4%	(18.9%)
Domestic operations	216	164	251	31.7%	(13.9%)
Overseas operations	67	42	98	59.5%	(31.6%)
Operating profit (loss)	(21)	(54)	(47)	61.1%	55.3%
Operating profit (loss) margin (%)	(7.4%)	(26.2%)	(13.5%)	18.8%	6.0%
EBITDA*	(2)	(30)	(26)	93.3%	92.3%
EBITDA Margin (%)	(0.7%)	(14.6%)	(7.4%)	13.9%	6.7%

Note:

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

from Q2/2020 from an eased lockdown measures and more orders from customers including the delivery of goods from the delayed shipment of the previous quarter. The Baht depreciated against the US Dollar in Q3/2020 compared to the same period last year, but has strengthened from the previous quarter 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, but increased from previous quarter.

Figure 2: Exchange rate trend Baht per US Dollar



➤ Overseas operations

Revenues from subsidiaries both in Vietnam and India increased from Q2/2020 but decreased from Q3/2019 due to the impact of the Covid-19 pandemic. In Vietnam, sales reduced sharply in August 2020 as a panic of 2nd wave Covid-19 outbreak. The most affected channels were distributors and wholesalers in traditional trade groups, and restaurants. However, sales recovered during September. In India, in Q3/2020, Indian government started to unlock and allow some public activities. Even though, the Covid-19 outbreak has affected customers' visit activities of direct sales members, more online social media tools are used for selling.

The decrease in revenues of Household Products led to the operating loss in Q3/2020 amounting to Baht 21 million with operating loss margin of 7.4%, a decrease of the loss from Q2/2020 and Q3/2019 with operating loss margin of 26.2% and 13.5%, respectively. EBITDA margin was negative 0.7% lower than negative 14.6% in Q2/2020 and negative 7.4% in Q3/2019. This was due to the increase in proportion of sales from high gross margin channels, and the business restructuring. The partial business transfer of production line for wholesale and export distribution channels of household products business unit to a subsidiary with the aim to centralize the main production base of the household products business unit in Thailand (under a single company) has improved efficiency in management. Selling and administrative expenses decreased from diminishing export expenses, the closure of a number of non-profitable branches of direct sales

business, the staff cost reduction, and unnecessary costs and expenses cutting. As a result, the loss was reduced from the last year and previous quarter.

2.1.2 Industrial Products

Revenues of Industrial Products in Q3/2020 amounted to Baht 1,339 million, increasing 6.0% QoQ, but decreasing 19.1% YoY. It can be summarized according to the following operating business bases:

➤ Domestic operations

Revenues increased from Q2/2020, but decreased from Q3/2019 mainly due to

both industrial and beverage packaging products. The Covid-19 pandemic has caused the drop in sales of the following industrial products:

- Battery cases and automotive products with supply chain disruption. Main raw material parts shortages from manufacturers located in Covid-19 outbreak countries put a halt to production lines and resulted in factories closures, particularly among automotive industry in line with the sluggish economy in Q2/2020. However, sales orders began to improve in Q3/2020 after the eased lockdown measures.
- Garbage bins decreased from the delay of government spending as well as the reduced budget for garbage bins.
- Containers, crates, and pallets declined following orders slowdown from retailers, restaurants, and automotive customers resulting from the effect of Covid-19.
- Paint pails increased after modern trade channel, which began to sell and receive orders from new branded customers both domestic and overseas.

Sales of beverage packaging products decreased by the selling price adjustment in line with falling raw material price. Although, the disease control measures were eased with various support programs from the government, the recovery of the economy was relatively slow. This was due to the low purchasing power of consumers, making people cautious in their spending.

➤ Overseas operations

Revenues decreased from Q2/2020 and Q3/2019 due to the selling price adjustment of beverage packaging products of subsidiaries in Vietnam in line with the decrease in raw material price. In addition, the 2nd wave Covid-19 outbreak resulted in a drop in sales of beverage packaging products in this quarter. However, sales of other industrial products increased from the last year and the previous quarter since a new motorcycle production company in Vietnam

Table 3: Summary of Operating Results of Industrial Products

(Unit: Million Baht)	Q3/2020	Q2/2020	Q3/2019	%QoQ + / (-)	%YoY + / (-)
Revenues	1,339	1,263	1,656	6.0%	(19.1%)
Domestic operations	871	786	1,111	10.8%	(21.6%)
Overseas operations	468	477	545	(1.9%)	(14.1%)
Operating profit	26	2	16	1,200.0%	62.5%
Operating profit margin (%)	1.9%	0.2%	1.0%	1.8%	1.0%
EBITDA*	177	154	179	14.9%	(1.1%)
EBITDA Margin (%)	13.2%	12.2%	10.8%	1.0%	2.4%

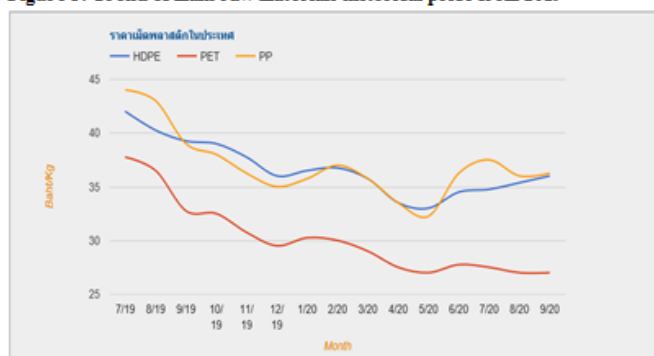
Note:

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

began its operation, resulting in the increase in sales of battery cases. Real estate business returned to build up again according to the government policy, resulting in more paint pails sales. In addition, orders for shopping basket containers from modern trade and super market stores increased.

Although, revenues of Industrial Products decreased, operating profit increased. The operating profit in Q3/2020 accounted for 1.9%, increasing from 0.2% in Q2/2020 and 1.0% in Q3/2019. EBITDA margin accounted for 13.2%, which increased from 12.2% in Q2/2020 and 10.8% in Q3/2019 due to lower raw material prices from the previous year (shown in Figure 3) and the improvement of production efficiency. In addition, the selling and administrative expenses were reduced from the reduction of sales and promotion expenses and personnel expenses. As a result, operating profit increased 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 Q3/2020 amounted to Baht 76 million, decreasing 2.6% QoQ, but increasing 61.7% YoY due to the delivery of moulds by the Group. While there were no sales from Network Business as it became part of direct sales business at the end of 2019.

Operating loss of Moulds and Others

Business Line amounted to Baht 22 million, and operating loss margin accounted for 28.9%, which loss increased from operating profit of Baht 12 million in Q2/2020 and operating loss of Baht 5 million in Q3/2019. EBITDA margin was negative 25.0%, which loss increased from positive 17.9% in Q2/2020 and negative 4.3% in Q3/2019 due to the lower gross profit from the adjustment of the selling price to compete in the market.

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

(Unit: Million Baht)	Q3/2020	Q2/2020	Q3/2019	%QoQ +/(−)	%YoY +/(−)
Revenues	76	78	47	(2.6%)	61.7%
Moulds	76	78	46	(2.6%)	65.2%
Others	0	0	1	0.0%	(100.0%)
Operating profit (loss)	(22)	12	(5)	(283.3%)	(340.0%)
Operating profit (loss) margin (%)	(28.9%)	15.4%	(10.6%)	(44.3%)	(18.3%)
EBITDA*	(19)	14	(2)	(235.7%)	(850.0%)
EBITDA Margin (%)	(25.0%)	17.9%	(4.3%)	(42.9%)	(20.7%)

Note:

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

3. Financial Position

As at 30 September 2020, compared with the end of 2019, the Group had total assets of Baht 7,889 million, a decrease of Baht 583 million, which comprised the following key items:

➤ Trade receivables amounted to Baht 1,334 million, decreased by Baht 403 million from close monitoring of debt collection and corresponding with the decrease in sales.

➤ Inventories amounted to Baht 939 million, decreased by Baht 238 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 3,921 million, decreased by Baht 264 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 4,001 million, decreased by Baht 525 million which comprised the key items as follows:

➤ Trade payable amounted to Baht 736 million, decreased by Baht 180 million from the management of supply chain with the policy to issue purchase orders when needed.

➤ Total loans amounted to Baht 2,495 million, decreased by Baht 355 million, consisted of the decrease in short-term loans by Baht 8 million and the decrease in long-term loans by Baht 347 million due principally to repayment of long term loans as scheduled.

Total shareholders' equity amounted to Baht 3,888 million, decreased by Baht 58 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 Sep 20	31 Dec 19	Increase (Decrease)
Trade receivables	1,334	1,737	(403)
Inventories	939	1,177	(238)
Property, plant and equipment	3,921	4,185	(264)
Total assets*	7,889	8,472	(583)
Trade payables	736	916	(180)
Short-term loans	1,695	1,703	(8)
Long-term loans	800	1,147	(347)
Total liabilities*	4,001	4,526	(525)
Total shareholders' equity*	3,888	3,946	(58)

Note:

*Total lines extracted from Statements of Financial Position

4. Cash flow

The Group had an increase in cash and cash equivalents by Baht 293 million, consisting of:

➤ Cash flow from operating activities amounted to Baht 888 million lower than last year mainly from the decrease in trade payables and other payables due to the policy to control raw material orders.

➤ Cash flow used in investment activities amounted to Baht 209 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 386 million, lower than prior year due to reduced principal repayment of long term loans as scheduled and additional drawdown of long term loan by subsidiaries in Vietnam, as well as short term loan by a local subsidiary for working capital.

As at 30 September 2020, the Group still had available unused credit facilities totaling more than Baht 4 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)	9 months	9 months
	2020	2019
Net cash flows from operating activities	888	1,001
Net cash flows used in investing activities	(209)	(96)
Net cash flows used in financing activities	(386)	(979)
Net increase (decrease) in cash and cash equivalents	293	(74)

5. Key Financial Ratios

Liquidity Ratio

Liquidity ratio as at end of Q3/2020 accounted for 1.0 time, approximately the same with Q2/2020 and Q3/2019 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 the 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	Q3/2020	Q2/2020	Q3/2019
Liquidity Ratio				
Current Ratio	Times	1.0	1.0	1.0
Working Capital Ratios				
Collection Period	Days	70.7	80.7	81.1
Inventory Turnover Period	Days	55.1	68.3	70.0
Payment Period	Days	43.2	47.0	41.7
Cash Cycle	Days	82.6	102.0	109.4
Profitability Ratios				
Return on Equity	%	(0.9)	(1.6)	(1.1)
Return on Operating Assets	%	(0.9)	(1.6)	(1.1)
Financial Structure Ratios				
Debt to Equity	Times	1.0	1.1	1.2
Net Interest Bearing Debt to Equity	Times	0.5	0.6	0.7

Working Capital Ratios

Cash Cycle as at the end of Q3/2020 was 82.6 days, improving from the end of Q2/2020 and Q3/2019 being 102.0 days and 109.4 days, respectively due to:

- As at the end of Q3/2020, the average number of days for Trade Receivables equaled to 70.7 days, improved from 80.7 days of Q2/2020 and 81.1 days of Q3/2019. This is due to the decrease in trade receivables in higher proportion than the decrease in sales.
- As at the end of Q3/2020, the average number of days for Inventories equaled to 55.1 days, improved from 68.3 days of Q2/2020, and 70.0 days of Q3/2019. This is due to the inventory management and delivery goods.
- As at the end of Q3/2020, the average number of days for Trade Payables equaled to 43.2 days, decreased from 47.0 days of Q2/2020, but increased from 41.7 days of Q3/2019. This is due to the extension of payment term with certain suppliers to strengthen the Company's liquidity and the control of purchase orders issuance.

Profitability Ratios

- Return on Equity, as at the end of Q3/2020 was a loss of 0.9%, decrease in loss from Q2/2020 and Q3/2019 being loss 1.6% and loss 1.1%, respectively corresponding to the lower operating loss, while shareholders' equity decreased from the previous year.
- Return on Operating Assets, as at the end of Q3/2020 was a loss of 0.9%, decrease in loss from Q2/2020 and Q3/2019 being loss 1.6% and loss 1.1%, respectively as result of lower operating loss, while operating assets decreased mainly from depreciation and amortization.

Financial Structure Ratios

- The Group had Debt to Equity ratio as at the end of Q3/2020 of 1.0 time, decreased from 1.1 times of Q2/2020, and 1.2 times of Q3/2019. This is due to an overall decrease in debts especially interest-bearing debts mainly from the schedule repayment of long term loans.
- Net interest bearing debts to equity of the Group at the end of Q3/2020 was 0.5 times, decreased from 0.6 times of Q2/2020, and 0.7 times of Q3/2019, as a result of the decrease of interest-bearing debts in higher proportion than the decrease in shareholders' equity.

6. Business outlook in the year 2020

6.1 Plastic Business Line

Household Products

Thailand's economy has been forecast to have risks which may weigh on an economic recovery, including:

- Risks from subsequent waves of severe Covid-19 infections globally and in Thailand, which will inevitably have a major impact on global economic conditions and Thailand's export sector. A panic effect will directly impair economic activities, and strict control measures may be re-introduced.
- Risks of growing political tensions within Thailand by several groups of citizens joining flash mobs. If these types of situations turn violent, a prolonged event could directly hurt the economy.
- Risks of higher business bankruptcies resulting in an increase in the unemployment, and the decrease in consumption of both business and household sectors.

Although, more easing measures are anticipated to support for both domestic and export sales of the domestic operations in Q4/2020, sales for this year will decrease compared with last year.

For overseas operations, the uncertainty of the Covid-19 pandemic and the 2nd wave Covid-19 outbreak incurred in Vietnam may affect the recovery of the Vietnamese economy. For India, it is now the country with the second highest number of infected cases in the world. However, the situation in Q4/2020 may improve with a better prospect since it is entering to the festival season of the year with more consumers spending.

Industrial Products

Sales of Beverage packaging products of domestic and overseas operations in Q4/2020 are forecast to increase from previous quarter due to entering the festival season at the end of the year with increased consumption. Total sales of the year 2020 will be less than 2019 due to the main impacts of Covid-19. Although, there were certain eased disease control measures and various support programs from the government, the recovery of economy was relatively slow. In addition, the natural disasters such as flooding in Thailand and Typhoon Molave in Vietnam, the potential subsequent waves of severe Covid-19 infections, and the political tensions in Thailand as well as lower raw material prices may affect the sales of beverage packaging of both local and Vietnamese operations.

Sales of other product groups of domestic and overseas operations in Q4/2020 are forecast to increase from the previous quarter, especially in Vietnam, as the Group has continually developed new products and expanded customer bases.

6.2 Moulds and Others Business Line

Sales of moulds in Q4/2020 and the year 2020 are expected to increase from previous year, because the Group has continuously monitored to deliver moulds to the customers and expanded the customer bases of moulds apart from the automotive industry.

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 significant drop in sales. The Group 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. The third quarter performance has demonstrated that the Group is moving to the right direction amid Covid-19 crisis.

Please be informed accordingly.

Yours faithfully,

Srithai Superware Public Company Limited

Chaiwat Kulphattaravanich

Director and Company Secretary