The Siam Cement Public Company Limited
Management's Discussion and Analysis (MD&A)
Consolidated Financial Results: Q3/18 and 9M/18

Consolidated Financial Performance

Q3/18 earnings of 9,473 MB, in light of the 1,670 MB in asset impairments and lower chemicals margins.

SCG reported Q3/18 Profit for the Period of 9,473 MB, which includes the asset impairments of 1,670 MB that is routinely assessed yearly, in addition to decreased chemicals margins. This represents a drop of -24% q-o-q in earnings for Q3/18. The asset impairments of 1,670 MB is mainly from the Cement – Building Materials Business, which accounted for 1,320 MB of the total of 1,670 MB. Similarly, EBITDA was also affected by this asset impairments and registered 17,811 MB, a decrease of -33% q-o-q, while Revenue from Sales grew 2% q-o-q to 122,518 MB with growths from all businesses.

On a y-o-y basis, Profit for the Period dropped -20% y-o-y, also affected by the asset impairments and lower chemicals margins. Similarly, EBITDA dropped -10% y-o-y, while Revenue from Sales gained +9% y-o-y from all businesses.

For the period of 9M/18, Profit for the Period registered 34,281 MB, a drop of -19% y-o-y, attributed to lower earning from the Chemicals business and impairments. Likewise, EBITDA decreased -12% y-o-y to 66,560 MB, but Revenue from Sales increased +7% y-o-y to 361,215 MB from all businesses.

9M/18 Equity Income of 11,890 MB, a drop of -16% y-o-y or down -2,316 MB.

Equity Income in 9M/18 registered 11,890 MB, representing a drop of -16% y-o-y or 2,316 MB. Chemicals associates contributed a total of 9,028 MB, representing a drop of 2,610 MB y-o-y due to higher feedstock costs, plant maintenance, and the Thai Baht appreciation, while non-chemicals associates contributed 2,862 MB, a growth of 294 MB y-o-y.

Total dividends received in 9M/18 amounted to 8,289 MB, a decrease of -28% or 3,250 MB, with details as follows: a) 7,354 MB from "Associated" companies (20%-50% stake), and b) 935 MB from "Other" companies (lower than 20% stake).

Table 1 - Consolidated financial summary

	Q3/18 MB	% Change Y-o-Y	% Change Q-o-Q	9M/18 MB	% Change Y-o-Y
Revenue from Sales	**122,518**	9%	2%	**361,215**	7%
Profit for the Period	**9,473**	-20%	-24%	**34,281**	-19%
EBITDA	**17,811**	-10%	-33%	**66,560**	-12%
EBITDA from Operations	**17,671**	-10%	-14%	**59,206**	-9%
Earnings per Share (Baht)	**7.9**	-20%	-24%	**28.6**	-19%

Note : EBITDA = Earnings and dividends, before interest, tax, depre & amortization.
EBITDA from Operations = Earnings before interest, tax, depre & amortization.
Profit for the Period = Profit for the period attributable to owners of the parent.

Cash & Cash Under Management of 52,614MB.

Solid financials, with cash & cash under management of 52,614 MB, compared to 64,129 MB at the end of Q4/17. CAPEX and Investments in 9M/18 was 34,921 MB, and is expected to increase to 40,000-45,000 MB in FY2018 as the construction start of the Vietnam chemicals project ramps up.

Net Working Capital registered 76,008 MB, an increase of 832 MB q-o-q, while Inventory to Sales was 49 days, compared to 45 days at the end of Q2/18.

Measures Taken

In light of the uncertainties resulting from the trade war and increased energy costs, SCG has begun to implement proactive measures to ensure its competitiveness while reinforcing the financial fundaments. The following summarizes these proactive measures:

1) Engage with new export markets.
2) Reassess CAPEX, both committed and non-committed.
3) Securing higher portions of the coal hedge cost.
4) Upward adjustments in product prices.
5) Proactive disciplinary working capital management, especially inventory and receivables.
6) Usage of technology for efficiency improvements.

Business Segments

Cement - Building Materials Business

Q3/18 Thai cement demand growth of +7% y-o-y.

In Q3/18, Thailand's total domestic grey cement demand increased +7% y-o-y, with most of the growth coming from the government sector (approx 35% of total volume) which grew +12% y-o-y. At the same time, the non-government sectors (approx 65% of total volume) grew +5% y-o-y for the commercial sector and +3% y-o-y for the residential sector. On a 9M/18 basis, Thailand's total cement demand has grown +3 y-o-y. The average grey cement price in Q3/18 increased y-o-y to be in the range of 1,700-1,750 Baht/ton.

Grey cement exports in Q3/18 grew 0.9 MT y-o-y to 1.1 MT, while the average FOB export price increased y-o-y at $45/ton as a result of the world clinker price increased from higher demand in China. Bagged cement accounted for 20% of the total volume exported, compared to 31% in the same period of the previous year.

For the non-cement products, Q3/18 Thai demand of ceramic tiles and housing products (roof, ceiling & wall) ranged from flat to slightly positive y-o-y, depending on the product. Within ASEAN (Thailand, Vietnam, Indonesia, Philippines) the ceramics tiles business recorded Q3/18 total sales volume (floor and wall tiles) of 44.7 million sqm, which decreased -3% y-o-y, and similarly with the total average price of ceramic tiles which decreased -3% y-o-y.

Financially, Revenue from Sales in Q3/18 registered 46,105 MB, an improvement of +4% y-o-y, and +3% q-o-q, attributed to the expansion of the regional operations. However, with the Q3/18 asset impairments of 1,320 MB, EBITDA decreased -24% y-o-y, and -24% q-o-q to 4,095 MB. Similarly, profit for the period registered 265 MB, a decline of -83% y-o-y, and -84% q-o-q.

For the period of 9M/18, Revenue from Sale increased by +4% y-o-y to 137,224 MB, with the expansion of the regional operations. However, EBITDA decreased -5% y-o-y to 15,920 MB, following the asset impairments. Similarly, Profit for the period went down -18% y-o-y to 4,426 MB.

Chemicals Business

PE/PP sales volume of 460,000 tons with squeezed chemicals margins.

In Q3/18, Brent crude oil prices slightly increased by $1/bbl or +1% q-o-q to $76/bbl, and Naphtha prices rose by $26/ton or +4% q-o-q to $667/ton. Both crude and naphtha prices were supported by anticipation of reduced Iranian oil and condensate export beginning Nov/18.

Overall, product prices decreased slightly q-o-q. HDPE price dropped $34/ton or -2% q-o-q to $1,350/ton, also PP price declined $9/ton or -1% q-o-q to $1,290/ton. Consequently, the spread of HDPE-naphtha decreased $60/ton or -8% q-o-q to $683/ton, and PP-naphtha spread dropped by $35/ton or -5% q-o-q to $623/ton. In Q3/18, Chemicals Business sold 460,000 tons of polyolefin products (PE and PP), a decline of 31,000 tons or 6% q-o-q, following limited availability of olefins in the market. In addition, 59% of the PE and PP produced were exported, or amounted to 270,000 tons of the total sales volume.

PVC spread (PVC-EDC/C2) squeezed by $28/ton or -7% q-o-q to $370/ton, due to firmer EDC prices following China's tariff on USA imports. PVC sales in Q3/18 slightly decreased by 3,000 tons or -2% q-o-q to 202,000 tons, as a result of less PVC production in Thailand during VCM plant turnaround.

BD-Naphtha spread increased +3% q-o-q to $945/ton, following tight supply in Asia. Similarly, MMA-Naphtha spread also gained +3% q-o-q to $2,070/ton, due to limited supply during plant shutdowns in North East Asia.

Revenue from sales in Q3/18 increased +1% q-o-q and +14% y-o-y to 57,713 MB, mainly from higher product prices. EBITDA accounted to 9,818 MB, a decrease of -39% q-o-q and -17% y-o-y, while profit for the period decreased -8% q-o-q and -22% y-o-y to 7,485 MB, following lower price gaps from higher feedstock cost.

For the period of 9M/18, revenue from sales increased +9% y-o-y to 167,633 MB from higher products prices. EBITDA decreased -20% y-o-y to 37,066 MB, and profit for the period declined -25% y-o-y to 23,751 MB as a result of lower price margins.

Packaging Business
Resilient performance.

In the Packaging Chain, the Q3/18 average price of recovered paper (AOCC) increased +$5/ton q-o-q to $220/ton due to strong demand from China. The average regional prices of Packaging Paper maintained at $565/ton. The total sales volume of Packaging Paper in Q3/18 was 642,000 tons, an increase of +1% q-o-q with higher export volume, but flat y-o-y. In Thailand, the domestic sales volume of Packaging Paper registered 339,000 tons, an increase of +1% q-o-q, but flat y-o-y.

Revenue from Sales of the Packaging Chain in Q3/18 amounted to 17,346 MB, up +1% q-o-q and +6% y-o-y from higher selling prices. EBITDA generation of the Packaging Chain amounted to 3,296 MB, up +4% q-o-q and +48% y-o-y due to higher margin from higher selling prices and cost saving initiatives.

In the Fibrous Chain, the regional price of P&W paper decreased q-o-q -$20/ton to $920/ton, while the average price of long-fiber decreased q-o-q to $875/ton due to lower Chinese and regional demand, while the price of short-fiber pulp slightly increased q-o-q to $775/ton. The domestic sales volume of P&W Paper amounted to 74,000 tons, down -3% q-o-q and -6% y-o-y on softer demand in the publication and commercials segments. Export sales volume of P&W Paper in Q3/18 was 31,000 tons or 30% of the total sales volume.

Revenue from Sales in the Fibrous Chain in Q3/18 registered 4,853 MB, up +3% q-o-q and +12% y-o-y from higher selling prices. EBITDA generation of the Fibrous Chain in Q3/18 amounted to 584 MB which dropped -5% q-o-q from higher production costs while increased +78% y-o-y from higher selling prices.

Financially, the Q3/18 Revenue from Sales of the Packaging Business registered 22,199 MB, up +2 q-o-q and +7% y-o-y from higher selling prices of both Packaging Chain and Fibrous Chain. EBITDA and Profit for the Period amounted to 3,880 MB and 1,717 MB, with respective growths of +3% q-o-q and +7% q-o-q, and +53% y-o-y and +128% y-o-y, with enhanced margins from higher selling prices and cost saving initiatives. The Q3/18 EBITDA contributions from the Packaging Chain and the Fibrous Chain were 85% and 15%, respectively.

For the period of 9M/18, Revenue from Sales increased +10% y-o-y to 65,972 MB, mainly due to higher selling prices and sales volume of Packaging Chain. As a result, EBITDA in 9M/18 gained +22% y-o-y to 11,212 MB. Similarly, Profit for the period increased +40% y-o-y to 4,827 MB.

Table 2 - Segments

Revenue from Sales	Q3/18 MB	Change % Y-o-Y	Change % Q-o-Q	9M/18 MB	Change % Y-o-Y
Consolidated SCG	**122,518**	9%	2%	**361,215**	7%
Cement-Building Materials Business	**46,105**	4%	3%	**137,224**	4%
Chemicals Business	**57,713**	14%	1%	**167,633**	9%
Packaging Business	**22,199**	7%	2%	**65,972**	10%
Other	**27**	42%	17%	**75**	21%
EBITDA	**Q3/18**	**% Y-o-Y**	**% Q-o-Q**	**9M/18**	**% Y-o-Y**
Consolidated SCG	**17,811**	-10%	-33%	**66,560**	-12%
Cement-Building Materials Business	**4,095**	-24%	-24%	**15,920**	-5%
Chemicals Business	**9,818**	-17%	-39%	**37,066**	-20%
Packaging Business	**3,880**	53%	3%	**11,212**	22%
Other	**31**	-74%	-97%	**2,407**	-30%
EBITDA from Operations	**Q3/18**	**% Y-o-Y**	**% Q-o-Q**	**9M/18**	**% Y-o-Y**
Consolidated SCG	**17,671**	-10%	-14%	**59,206**	-9%
Cement-Building Materials Business	**4,095**	-24%	-23%	**15,601**	-5%
Chemicals Business	**9,689**	-17%	-8%	**31,198**	-17%
Packaging Business	**3,869**	53%	2%	**11,196**	22%
Other	**31**	-74%	-97%	**1,256**	-39%
EBITDA Margins (%)	**Q3/18**	**Q3/17**	**Q2/18**	**9M/18**	**9M/17**
Consolidated SCG	**14%**	18%	17%	**16%**	19%
Cement-Building Materials Business	**9%**	12%	12%	**11%**	12%
Chemicals Business	**17%**	23%	18%	**19%**	24%
Packaging Business	**17%**	12%	17%	**17%**	15%
Profit for the Period	**Q3/18**	**% Y-o-Y**	**% Q-o-Q**	**9M/18**	**% Y-o-Y**
Consolidated SCG	**9,473**	-20%	-24%	**34,281**	-19%
Cement-Building Materials Business	**265**	-83%	-84%	**4,426**	-18%
Chemicals Business	**7,485**	-22%	-8%	**23,751**	-25%
Packaging Business	**1,717**	128%	7%	**4,827**	40%
Other	**35**	N/A	-97%	**1,397**	-29%

Note: EBITDA = Earnings and dividends, before interest, tax, depre & amortization.
EBITDA from Operations = Earnings before interest, tax, depre & amortization.
EBITDA Margins = Operating EBITDA, to Revenue from Sales.
Profit for the Period = Profit for the period attributable to owners of the parent.

Financials

Net Debt 151,747 MB in Q3/18, vs 145,034 MB in Q4/17.

Net debt registered 151,747 MB in Q3/18, an increase of 6,713 MB from Q4/17, while the annualized Net Debt / EBITDA ratio slightly rose at 1.8 times (x) from 1.4 time (x) in Q4/17.

The 9M/18 EBITDA of 66,560 MB is compared to the 9M/18 combined cash outflow of 76,469 MB (CAPEX & Investments of 34,921 MB, dividend payout of 30,007 MB, interest payment of 5,089 MB and corporate tax of 6,452 MB)

Net finance and interest cost of 9M/18 amounted to 5,165 MB, relative to 7,112 MB in FY2017. The average cost of interest at the end of Q3/18 remained at 3.2%, while 98% of the debt are at fixed rate, and 98% are in nominated in Thai Baht.

CAPEX & Investment 34,921 MB in 9M/18.

CAPEX & Investment in 9M/18 amounted to 34,921 MB, of which 55% was from the Chemicals Business, 17% from the Packaging Business, 26% from the Cement-Building Materials Business, and 2% from others. The expected FY2018 CAPEX & Investment will be approximately 40,000-45,000 MB.

Table 3 - Debt Profile (MB)

	Q3/18	Q2/18	Q4/17	Q3/17
Short Term	**20,239**	**19,314**	**19,783**	**15,148**
Foreign	2,606	3,019	2,320	2,555
Baht	17,633	16,295	17,463	12,593
% of Total Loan	10%	9%	9%	8%
Long Term	**184,122**	**187,230**	**189,380**	**184,687**
Foreign	2,010	2,356	2,699	3,067
Baht	182,112	184,874	186,681	181,620
% of Total Loan	90%	91%	91%	92%
Total Loan	**204,361**	**206,544**	**209,163**	**199,835**
Cash & Cash Under Management	**52,614**	**68,947**	**64,129**	**47,819**
Cash and cash equivalents	27,496	33,904	43,937	27,629
Short-term investments	17,624	28,228	12,971	12,486
Available-for-sale investments	7,494	6,815	7,221	7,704
Total Net Debt	**151,747**	**137,597**	**145,034**	**152,016**

Financial Ratios	Q3/18	Q2/18	Q4/17	Q3/17
EBITDA on Assets (%)	15%	15%	18%	17%
Current Ratio (times)	1.6	1.8	1.5	1.2
Quick Ratio (times)	0.9	1.1	0.9	0.7
Interest Coverage (times)	10.2	15.4	15.0	11.4
Net Debt to EBITDA (times)	1.8	1.5	1.4	1.6
Net Debt to Equity (times)	0.5	0.4	0.5	0.5
Debt to Equity (times)	0.9	0.9	0.9	0.9
Return on Equity (%)	17%	19%	22%	23%

Note:
- *Net Debt* = *Total debt (interest bearing), less cash and cash under management*
- *EBITDA* = *Earnings before interest, tax, depreciation, and amortization, plus dividends.*
- *EBITDA on Assets* = *Annualized EBITDA, to Total Consolidated Assets*
- *Current Ratio* = *Current assets, to current liabilities*
- *Quick Ratio* = *Cash + short term investments + receivable, to current liabilities*
- *Interest Coverage* = *EBITDA, to interest expense*
- *Net Debt to EBITDA* = *Net debt, to annualized EBITDA*
- *Net Debt to Equity* = *Net Debt, to equity & non-controlling interest*
- *Debt to Equity* = *Total Liabilities, to equity & non-controlling interest*
- *Return on Equity* = *Annualized Net profit, to average total shareholders' equity (not including non-controlling interest)*

Table 4 - Statement of Financial Position (MB)

	Sep/18	Dec/17	Sep/17
Total Assets	**592,399**	**573,412**	**562,814**
Current assets			
Cash, cash equivalent and short-term investment	45,120	56,908	40,115
Trade and other receivables	68,771	55,407	56,978
Inventory	66,479	57,650	55,905
Long-term investment	110,880	108,468	110,230
Property, plant and equipment	244,096	248,847	250,562
Total Liabilities	**284,266**	**271,587**	**269,150**
Trade and other payables	64,729	46,056	54,448
Loans	204,361	209,163	199,835
Total Shareholders' equity	**308,133**	**301,825**	**293,664**
Total equity attributable to owners of the parent	267,324	261,098	252,265
Non-controlling interests	40,809	40,727	41,399