

Analysis of Financial Performance

Revenues

The following revenue performance should be understood in relation to the underlying business insight described in the previous paragraphs. The company generated 68 percent of its net sales (excluding inter-company sales) from the cement business while 27 percent attributable to concrete and aggregates businesses. In general, the revenues were impacted by subdued demand which negatively affected volume growth and selling prices.

(Unit : Million Baht)

As of December 31				
	2015	2014	+/-	+/- (%)
Revenues				
Net sales	31,120	31,862	(742)	(2%)
Dividend Income	21	16	5	31%
Gain on exchange	-	41	(41)	100%
Other income	200	91	109	120%
Total Revenues	31,341	32,010	(669)	(2%)

Total net sales was declined by 2 percent from the year 2014 mainly due to the lower average selling prices across main businesses ranged from -1 percent to -7 percent year on year basis. However, the Company rapidly increased clinker export, a volume growth of 44 percent to assure full utilization of our production assets.

Other income posted an increase by Baht 109 million mainly from the charge back of Baht 86 million as pre-establishment cost to the joint venture company in Cambodia which was written-off in 2013.

Expenses

The expenses shown below will need to be understood in the context of operation intensity and production rates. The production volume of clinker was increased by 4.4 percent compared to 2014 by efficient run of all kilns. Further, we have achieved increased production volumes in the businesses of concrete, aggregates and wood replacement in Indonesia. The main expense items shown below are static or lower in spite of such increased production volume due to cost reduction efforts.

(Unit : Million Baht)

As of December 31				
	2015	2014 (Restated)	+/-	+/- (%)
Expenses				
Production cost of goods sold	17,336	17,592	(256)	(1%)
Selling and distribution expenses	6,710	6,693	17	-
Administrative expenses	1,285	1,259	26	2%
Loss on exchange	17	-	17	-
Total expenses	25,348	25,544	(196)	(1%)

Production of cost of goods sold has only slightly decreased despite of much lower production cost in cement due to the increased production volume that offset the lower cost. The Company launched a number of cost reduction initiatives from energy savings to maintenance cost optimization so that the gross profit margin could be maintained at 44 percent (2014: 45 percent). The key driver of the slight decrease in gross profit margin was from fiber cement business in Indonesia which has not been fully utilized its full capacity as it is under market ramp up.

Selling, distribution and administrative expenses were contained with no significant change from prior year.

Loss on exchange was mainly in respect of unrealized translation losses from overseas subsidiary operation in Indonesia.

Overall performances

	Unit	2015	2014
Gross profit margin	%	44	45
Operating EBITDA	%	24	24
Net profit margin	%	15	16

The company's net profit was declined by 10 percent or Baht 512 million from the year 2014 despite of sustained Operating EBITDA mainly due to the increase in depreciation charge, financial expenses and lower earnings from associates.

Analysis of Financial Position

Net Working Capital

The Company has been able to reduce its already excellent working capital percentage to net sales further through better control of terms on account payable. However, the number of days account receivable outstanding was slightly longer by 2 days due to a change in the business mix where revenues are increasing from bulk cement and concrete sales. For days inventory outstanding is longer by 4 days which is resulted from plant maintenance schedule at the ended year 2015.

	Unit	2015	2014
Net working capital	Million Baht	1,482	1,615
NWC in percent of net sales	%	4.80	5.10
Accounts receivable turnover	Times	8.06	8.32
Days receivable outstanding	Days	45	43
Inventory turnover	Times	7.95	8.78
Days inventory outstanding	Days	45	41
Accounts payable turnover	Times	6.49	6.98
Days payable outstanding	Days	55	52

Investments

The net increase in the total investments is Baht 1,621 million for the year 2015 as shown below. This excludes the financial investment made in joint venture, which amounted to Baht 433 million in Chip Mong INSEE Cement Corporation Ltd.

(Unit : Million Baht)

	As of December 31			
	2015	2014	+/-	+/- (%)
Property, plant and equipment	21,421	20,801	620	3%
Intangible assets	3,297	2,251	1,046	46%
Other non-current assets	261	306	(45)	(15%)

Property, plant and equipment, represented 57 percent of total assets, which was increased by Baht 620 million with the capital expenditure in key investments of Baht 2,073 million, offset by the depreciation charge and disposal of assets amounted to Baht 1,453 million. Top five investment projects were as below;

- Chloride bypass at Kiln 6 - partial payments Baht 143 million,

- Cement mill capacity expansion and Kiln 3 capacity upgrade for waste heat recovery - partial payments Baht 132 million and Baht 73 million, respectively,
- Replacement of spare part at quarry plant, off-highway dump truck and process control system at plant 2 by Baht 157 million,
- Recondition of Ready mixed concrete plant by Baht 72 million.

In addition, capital expenditure relating to maintaining productive capacity amounted to Baht 1,561 million.

Intangible assets were increased by Baht 1,046 million which includes an addition of Baht 1,121 million less amortization of Baht 75 million. The Key investment was our new state of the art IT system, INSEE SMART project, amounting to Baht 888 million and renewed concession license and forestry permit at Saraburi amounting to Baht 102 million.

Other non-current assets were decreased by Baht 45 million mainly from the amortization of the advance payments to suppliers' of raw material.

Funding

Outstanding debentures consisted of 2 sets of unsubordinated and unsecured debentures which were issued on 14 June 2013 totaling Baht 6,000 million. The first tranche of debenture amounted Baht 4,000 million and the second tranche of debenture amounted to Baht 2,000 million which will be due in 2017 and 2020, respectively.

Loans from financial institution amounting to Baht 2,326 million are consisted of long term loans amounting to Baht 1,446 million mainly in the Fiber cement business and short term loans, Baht 881 million to support normal operation of light-weight block and fiber cement businesses. The movement of long term loans is solely due to the repayment of loans during the year.

Shareholders' equity

The Company's shareholder equity increased by 6 percent or Baht 1,189 million compared to 2014 with the addition of the undistributed profit of the Company. The shareholders' equity was also decreased by the dividend paid during the year 2015 which consisted of final dividend of Baht 7 per share for the year 2014 and the interim dividend for the year 2015 of Baht 8 per share.

The Company proposed Baht 15 per share dividend as same as last year to the shareholders out of the earnings for the year 2015. Dividend payout ratio for 2015 is 75 percent of the consolidated financial statements which is higher than the Company's dividend policy of 60 percent. The dividend amount of Baht 15 per share is distributed as follows, Baht 8 per share of interim dividend which was already paid in August 2015 and Baht 7 per share as final dividend to be paid after the approval of shareholders at the Annual General Meeting to be held in April 2016.

As at 31 December 2015, the Company maintained its capital position which consisted of total liabilities at Baht 15,416 million and the shareholders' equity for the amount Baht 22,092 million thereby debt-to-equity ratio of 0.70 times (2014: 0.70 times).

Analysis of Cash Flow Statement

The Company carried a consolidated cash and cash equivalent balance of Baht 2.3 billion as at the year end. The cash generation was solid with net cash from operation improved by Baht 354 million compared to 2014 with excellent working capital management. The

Company's net cash outflow from investing activities was Baht 3,567 million comprised of capital expenditure described in earlier paragraph. Moreover, the above includes Baht 433 million which is part of the subscription to the share capital of Chip Mong INSEE Cement Corporation Ltd, the joint venture company in Cambodia. As part of the financing activities, the company increased its short-term loans to fund normal operation and there was no addition to long-term loan during the year 2015.

14. Management Discussion and Analysis (MD&A)

The following management discussion and analysis is intended to provide the reader with sufficient business insight to understand the financial position of the Company thus should be read in conjunction with our financial statements and the accompanying notes to it.

Siam City Cement Public Company Limited (“SCCC” or the “Company”) is a cement and complimentary building materials business focused on helping people and businesses to achieve smart construction solution.

Cement and building materials industry is highly correlated to the economic growth, infrastructure trends and demographic of the country.

Thailand’s economy is expected to report a GDP growth of less than 3 percent for the year 2015 which is still moderate yet it is progressive compared to 0.9 percent in 2014. However, the underlying real economy is deeply affected by a declining trend of exports, lower farm prices and rising household debt.

Cement industry trends and outlook has been dynamic and highly competitive. In particular, the recent demand growth has been negatively affected by the weakness in the real economy while increased public spending by the Government has helped to somewhat mitigate the decline. As announced by the Ministry of Finance, the cement growth rate declined by 0.4 percent in 2015.

Even though the cement market structure is consolidated and has evolved to be relatively cost effective and efficient, recent addition of new capacities by the existing producers ahead of the demand cycles has led to an over-supply situation.

The Cement business has seen a slight moderation of about 2 percent in domestic volume sold. However, the Company managed to maintain its cement market share at 27.5 percent despite the decline in domestic consumption. The Company has continued to export cement and maintained its market presence in Cambodia, Myanmar and Laos, where Cambodia is still the biggest market for the border at 63 percent followed by Myanmar and Laos, respectively. The cement selling prices across the board were under severe pressure due to over-supply and weak demand. We will continue to invest in securing our market shares and supply chain competitiveness to protect our market position with our network of customers.

The Ready-mix concrete business reported a sales volume growth of 2.2 percent compared to 2014 on increased public spending by the Government. Yet, the market situation remained weak due to the slow economic recovery and lower private investment leading to lower selling prices. However, the Company promoted its value-added solution with higher commercial margin to maintain its performance.

The Aggregate business consisting crushed stones and sands reported an increase of 15 percent in sales volume with the completion of Suphanburi plant upgrade and full operation in INSEE Angthong unit in the year 2015. The Company also achieved a volume growth of 36 percent in highway projects.

The Mortar business maintained its sales volume despite sluggish demand in residential market and new capacity addition by other producers. Consequently, selling price were affected due to the stiff competition in the market. The Company continued to develop value-added solutions to improve its offerings to its customers while maintaining products’ margin.

The Fiber cement business reported lower volume by 8 percent compared to 2014. This was resulted from the significant drop of newly launched housing unit as ascribed to market slowdown. However, the Company achieved impressive growth in the CONWOOD Nano-color Series and CONWOOD Deck T-Lock products, which have been designed to add value by offering the customer improved aesthetics through perfect color finishing and time savings through an easier installation system.

The Light-weight concrete business posted sales volume growth of 5 percent despite slowdown in demand growth and oversupplied market situation. Consequently, the selling price was negatively impacted also due to the fierce price competition in the market by the major players. Thus, the Company adjusted its direction to grow its future products to provide innovative solution to our customers, such as reinforced light weight concrete panels and lintels which have received strong market acceptance.

The Digital business achieved the implementation of the new digitally enabled IT system of the Group under “INSEE Smart project” which has successfully gone-live on 1st October 2015. The new system has laid the foundation to create an insight driven smart organization with real-time information enabling a fast responsive business that seamlessly connects its people and customers to create value for all stakeholders.

Ecocycle business is a recently established subsidiary of SCCC by restructure of one of the group business units. The company will offer environmentally sound waste management solutions and co-processing in cement kilns in strict compliance with international management standards.

Key Opportunities and Investments

Based on our strategic assessment, we will continue to protect and consolidate our market shares in all key markets while investing in driving up the competitiveness of our asset foot print. Timing of investments is critical to success and assures adequate returns while focus will be to grow the top line. Accordingly, the Company has decided to invest in a Greenfield cement plant in Cambodia to better serve our customers improving our competitive position. The plant has capacity to produce over 1.5 million tons of cement with a USD 262 million project budget which will be owned by SCCC 40 percent and Chip Mong Group and its owners 60 percent.

The Company is studying a number of investment opportunities to expand its existing businesses as well as add new businesses including acquisition targets in other geographies.

Outlook

The cement market is foreseen to grow in 2016, especially after the tangible implementation of the mega infrastructure projects from the second half of 2016. Rest of the building material business may see growth with a lag effect as the mega projects influence the broader economy. The competition in cement market tends to be more intense with new supplies; consequently, the Company is well positioned to maintain its market share during this difficult situation by offering the best value to our customers. Continuous reduction of key input factors of production due to the lower international energy prices may somewhat support the profitability margins. However, we remain resolute to produce top line growth and lasting performance year after year.

Financial Performance

The Company reported its operating EBITDA flat at Baht 7,511 million with its margin at 24.1 percent compared to 23.8 percent in 2014 by sustaining the efficiencies of its optimal

cost base despite a 2 percent decline in net sales due to lower selling prices. Consolidated net profit for this year was solid at Baht 4,579 million leading to earnings per share of Baht 19.91 in comparison to Baht 5,091 million with earnings per share at Baht 22.13 in 2014.

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