

Aug 10, 2017

Subject Management Discussion and Analysis for the period of three months ended 30th June 2017

To President of the Stock Exchange of Thailand
Secretary of the Office of Securities and Exchange Commission

Lohakit Metal Plc. (the "Company") would like to notify the financial status and operating performance for the period of three months ended 30th June 2017 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For the period of three months ended 30th June			
	Apr 2017 - June 2017	Apr 2016 - June 2016	Change	% Change
Revenue from sales & service	810.47	744.99	65.48	8.8%
Other income	6.47	7.06	-0.59	-8.4%
Total revenue	816.94	752.05	64.89	8.6%
Cost of goods sold & service	700.82	646.00	54.82	8.5%
Selling expenses	14.83	19.87	-5.04	-25.4%
Administrative expenses	25.75	25.02	0.73	2.9%
Total expenses	741.40	690.89	50.51	7.3%
Earning before interest and tax	75.54	61.16	14.38	23.5%
Financial expenses	-1.64	-2.72	1.08	-39.7%
Share of income from investment in associate	0.25	0.40	-0.15	-37.5%
Corporate Income tax expenses	-14.83	-11.74	-3.09	26.3%
Net profit for the period	59.32	47.10	12.22	25.9%
Profit Sharing for non-controlling interest of a subsidiary company	-12.60	-10.00	-2.60	26.0%
Net profit for the company and its subsidiaries	46.72	37.10	9.62	25.9%

1. Operating Performance

For the period of three months ended 30th June 2017, the net profit was Baht 46.72 million, increased by 9.62 million or increasing by 25.9 percents in which performance for the company and its subsidiaries in the current three-month period compared to the same period of a year earlier, the main reason is the increasing in sales of stainless steel sheets, coil and pipe. The average selling price has risen from the previous year, in line with the global market. Meanwhile, the demand for stainless steel started to increase as the country's economy began to grow steadily as the result of the export sector, private consumption, tourism sector in which all of them improved as well as agricultural incomes improved. The domestic car sales for the current quarter also increased compared to the previous year. As a result, total sales of company and its subsidiaries increased. Comprehensive net income also improved substantially with high level gross margins. While selling expenses decreased in the current year by comparison to the same quarter of last year when the Company and its subsidiaries had a provision for doubtful accounts.

Beside, company and its subsidiaries recorded the profit sharing to non-controlling interest in a subsidiary by Baht 12.60 million, increased by Baht 2.60 million from the same period of previous year due to the increase in net profit of a subsidiary company who manufacture and supply the automotive exhausted pipes to automotive industry.

1.1 Revenue

For the period of three months ended 30th June 2017, the Company and its subsidiaries had revenue from sales and service of Baht 810.47 million compared with Baht 744.99 million in the same period of the previous year or increased by 8.8 percents. This is because the average selling price of metal products has risen in following the price of raw materials in the world market compared to the same period of the previous year as well as the rise in weight of sales of sheet, coil and pipe have increased in line with the economic conditions in the country, which has been growing steadily due to the continued economic stimulus of the government and the economic pressure in previous year both from domestic and international have been reducing its negative impacts.

The sales of a new subsidiary company mostly came from Copper and Aluminum whereas stainless products were the main products of Company and its old subsidiaries.

1.2 Other income

Other income consists of interest income, gain from asset sales and revenue from scrap sales. For the period of three months ended 30th June 2017, the Company and its subsidiaries had other income of Baht 6.47 million which decreased by 8.4 percent from the same period previous year. The significant other income is income from scrap sales which are the results from the processing of cold rolled stainless steel sheet and coil such cut to length as per customers' requirements. The Company and its subsidiaries therefore sold scrap and recorded as the other income.

1.3 Cost of goods sold

Major cost of goods sold are cost of products consisting of cold rolled stainless steel sheet, Copper, Aluminum, Brass, Galvanized iron with various type as coil, sheet, pipe and axle. The Company and its subsidiaries procure finish quality product for sales as well as raw material for manufacture to quality product and sales. For the period of three months ended 30th June 2017, the Company and its subsidiaries had cost of goods sold of Baht 700.82 million, or accounting for 85.79 percent of the total revenue in comparing with Baht 646.00 million or accounting for 85.90 percent of total revenue of previous year. The cost of goods sold of the company and its subsidiaries increased by 8.5 percent compared with the same period last year. While revenues from sales and services increased by 8.8 percent.

1.4 Selling expenses

Selling expenses consist of sale staff expenses, transportation expenses and promotion expenses. For the period of three months ended 30th June 2017, the Company and its subsidiaries had selling expenses of Baht 14.83 million, compared with selling expenses of Baht 19.87 million in the same period of the previous year which decreased by Baht 5.04 million or 25.4 percent. This is because there is no obligation in current quarter to reserve doubtful debt as in previous years. As such, the selling expenses for the period of three months ended 30th June 2017 was 1.82 percent of revenue from sale and service, lower in compared with selling expenses of 2.67 percent of revenue from sale and service in the same period of the previous year.

1.5 Administrative expenses

Administrative expenses consist of executive expenses and staff expenses other than sale department, office rental expenses and other management and administrative expenses. For the period of three months ended 30th June 2017, the Company and its subsidiaries had administrative expenses of Baht 25.75 million, compared with administrative expenses of Baht 25.02 million in the same period of the previous year which slightly increased by 2.9 percent.

The other increase is in area of personnel costs due to salary normally increased year by year and other administrative expenses. As such, the administrative expenses for the period of three months ended 30th June 2017 was 3.15 percent of total revenue, slightly lower in compared with administrative expenses of 3.33 percent of total revenue in the same period of the previous year.

1.6 Share of income from investment in associate

In April 2009, the Company invested in the ordinary shares of Mory Lohakit (Thailand) Co.,Ltd. ,who is the marketing and sale force for the company and its subsidiaries and joint venture, by holding 49 percent of total shares. As for the period of three months ended 30th June 2017, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.25 million in consolidated income statements in which decreased by Baht 0.15 million or 37.5 percent in comparison with the same period of previous year.

1.7 Earning (loss) before interest and tax and Net Profit (loss) for the period

For the period of three months ended 30th June 2017, the Company and its subsidiaries had profit before interest and tax of Baht 75.54 million. After deducting the financial expense of Baht 1.64 million and income tax of Baht 14.83 million and adding the share of income from investment of Baht 0.25 million, the net profit of the Company and its subsidiaries was at Baht 59.32 million. When comparing to the profit before interest and tax and the net profit of the same period of the previous year which were at Baht 61.16 million and Baht 47.10 million respectively, the profit before interest and tax and net profit of the present period increased by 23.5 percent and 25.9 percent respectively.

In addition, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 12.60 million for the present period, comparing to Baht 10.00 million in the same period of previous year. Therefore, the net profit for the company and its subsidiary for the three months ended as of 30th June 2017 was Baht 46.72 million from Baht 37.10 million in the same period of previous year.

1.8 Corporate income tax

For the three months ended 30th June 2017, the Company and its subsidiaries recognized corporate tax expenses by 14.83 million or increased by 26.3 percent, when comparing to corporate tax expenses by 11.74 million in the same period of previous year. This was mainly due to higher earnings from operations.

1.9 Profit Sharing for non-controlling interest of a subsidiary company

On Oct 1' 2010, the company sold partial investment in a subsidiary company to Japanese alliance, Mory Industrial Inc. the Company and its subsidiaries recognized profit sharing to minority shareholders according to the percentage of shareholding of net profit in subsidiary was amount by 12.60 million for the three month period ended 30th June 2017 comparing to Baht 10.00 million in the same period of previous year.

1.10 Profitability

For the period of three months ended 30th June 2017, the Company and its subsidiaries had gross profit margin of 13.53 percent compared with gross profit margin of 13.29 percent in the same period of the previous year. The higher gross margin was due mainly to the higher margin products in exhausted pipe following its ongoing improvement and development in production process.

(Unit: Baht million)

Consolidated balance sheets	As at 30 th Jun 2017		As at 31 st Mar 2017	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	237.54	10.37%	237.45	10.45%
Short-term investment	3.73	0.16%	21.35	0.94%
Account receivable, trade and others	728.08	31.80%	679.83	29.93%
Inventories, net	790.72	34.54%	792.71	34.90%
Other current assets	5.20	0.23%	5.71	0.25%
Total current assets	1,765.27	77.10%	1,737.05	76.47%
Non-current assets				
Investment in related company	11.24	0.49%	10.99	0.48%
Long-term investment	2.60	0.11%	2.73	0.12%
Property, plant and equipment, net	438.46	19.15%	448.52	19.75%
Intangible assets – net	0.71	0.03%	0.76	0.03%
Restricted fixed deposits	45.98	2.01%	45.98	2.03%
Deferred tax assets	21.41	0.94%	21.60	0.95%
Other non-current assets	3.88	0.17%	3.83	0.17%
Total non-current assets	524.28	22.90%	534.41	23.53%
TOTAL ASSETS	2,289.55	100.00%	2,271.46	100.00%
LIABILITIES				
Current liabilities				
Bank overdraft and borrowing from financial institutions	64.34	2.81%	53.56	2.36%
Account payables, trade and others	485.02	21.18%	531.90	23.42%
Current portion of financial lease	1.04	0.05%	1.17	0.05%
Accrued corporate income tax	43.88	1.92%	29.49	1.30%
Other current liabilities	9.11	0.40%	8.23	0.36%
Total current liabilities	603.39	26.35%	624.35	27.49%
Non-current liabilities				
Provision for employee benefit	32.05	1.40%	31.07	1.36%
Total non-current liabilities	32.05	1.40%	31.07	1.36%
TOTAL LIABILITIES	635.44	27.75%	655.42	28.85%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	16.73%	383.00	16.86%
Premium on stock	519.67	22.70%	519.67	22.88%
Retained earnings				
Legal reserve	72.60	3.17%	72.60	3.20%
Un-appropriated	486.94	21.27%	440.35	19.39%
Non-controlling interest of a subsidiary	191.90	8.38%	200.42	8.82%
Total shareholders' equity	1,654.11	72.25%	1,616.04	71.15%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,289.55	100.00%	2,271.46	100.00%

2. Financial Status

2.1 Assets

As for the assets value as at 30th June 2017 and 31st March 2017, the Company and its subsidiaries had total assets of Baht 2,289.55 million and Baht 2,217.46 million respectively. The increase was Baht 18.09 million, mainly increased in account receivable following the sale increase in current quarter. The Company and its subsidiaries operated integrated stainless center which provided many kinds of services such as procurement, transformation, manufacture and stainless products wholesale and a subsidiary who is the finish goods trader of metal and non-ferrous metal. Therefore, the Company and its subsidiaries' major assets are inventories, account receivables, land, plant and equipment as details below:

- 2.1.1 Inventories: As at 30th June 2017 and 31st March 2017 the Company and its subsidiaries had net inventories of Baht 790.72 million (or 34.90 percent of total assets) and Baht 792.71 million (or 34.90 percent of total assets) respectively
- 2.1.2 Trade account receivables, net – other parties: As at 30th June 2017 and 31st March 2017, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 728.08 million (or 31.80 percent of total assets) and Baht 679.83 million (or 29.93 percent of total assets) respectively.
- 2.1.3 Land, plant and equipments - Land and improvements, building, machinery, office equipments, vehicles and work on progress of construction: As at 30th June 2017 and 31st March 2017, the Company and its subsidiaries had Land, plant and equipments – net of Baht 438.46 million (or 19.15 percent of total assets) and Baht 448.52 million (or 19.75 percent of total assets) respectively. During the period, there was no significant investment.
- 2.1.4 Restricted fix deposit: As at 30th June 2017 and 31st March 2017, the Company and its subsidiaries had the same net value of Baht 45.98 million (or 2.01 percent of total assets and 2.03 percent of total assets) respectively. The restricted fix deposit by a subsidiary was used as guarantee for loans from financial institution.
- 2.1.5 Deferred tax assets: As at 30th June 2017 and 31st March 2017, the Company and its subsidiaries had net value of Baht 21.41 million and Baht 21.60 million respectively (0.94 percent and 0.95 percent of total assets respectively).

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as at 30th June 2017 and 31st March 2017 stood at Baht 635.44 million and Baht 655.42 million respectively. The decreasing in liabilities was mainly to the payment of trade payable.

2.3 Shareholders' equity

As at 30th June 2017 and 31st March 2017, shareholders' equity was Baht 1,616.04 million and Baht 1,654.11 million respectively. The major changes were from the net profit amounting to Baht 59.32 million, dividend payment of Baht 21.12 million. Therefore, portions of company shareholding interest and non-controlling interest of subsidiary stood at Baht 1,462.21 million and Baht 191.90 million respectively.

Debt to Equity ratio as at 30th June 2017 and 31st March 2017 were 0.41 and 0.38 times respectively.

(Unit: Baht million)

Consolidated cash flows statement	As at 30th Jun 2017	As at 30th Jun 2016
Net cash from (used in) operating activities	0.45	119.34
Net cash used in investing activities	10.19	0.13
Net cash from (used in) financing activities	-10.47	-113.49
Effect of exchange rate to cash and cash equivalent	-0.09	0.11
Net increase (decrease) in cash	0.08	6.09

3. Cash flows

For the three month period ended 30th Jun 2017, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 0.45 million, consisting of baht 91.21 million positively from operating performance and net pay of Baht 90.76 million to use with working capital from higher account receivable and trade payable settlement.

There was also net receiving in investing activities of Baht 10.19 million with no major investment during the period.

The financing part was net pay in Baht -10.47 million. The major activity was payment of dividend by Baht -21.12 million to minor shareholder in a subsidiary company. Whereas, the short term loan from bank increase 10.78 million baht.

In total, net cash for the year was increased by Baht 0.08 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)
Deputy Managing Director