

Management Discussion and Analysis for the 3rd Quarter 2018 ended November 30, 2018

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the consolidated reviewed the 3rd quarter financial statements as of November 30, 2018 which were reviewed by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited. The operating performance is summarized as follows.

Overview

According to the Bank of Thailand and Office of the National Economic and Social Development Board data, the Thai economy in the third quarter of 2018 expanded by 3.3%, decreased from 4.6% in the previous quarter due to a slowdown in both of export and tourism sectors. Meanwhile, the private consumption expenditure accelerated in line with rising consumer confidence. In addition, the public consumption and private investment were constantly expanding. However, Thai economy still faces other risk such as The U.S.-China trade war, global economic uncertainty and domestic political situation.

As of November 30, 2018, the Company’s total cards reached 8.43 million cards, increased by 4% from the end of fiscal year 2017 (including 2.59 million credit cards, increased by 4% and 5.84 million member cards, increased by 3%). Covering networks nationwide, the Company has 103 branches, 444 ATMs, and over 4,583 member dealers to provide quality financial services to AEON cardholders.

Summary of Consolidated Financial Results

1. Operating Results

Revenues

For the nine-month period of 2018, the total consolidated revenues were 15,335 million baht, showing an increase of 1,728 million baht or 13% y-y. In the third quarter of 2018, the Company’s revenues were 5,225 million baht, an increase of 548 million baht or 12%y-y. This is the result of an increase in core business revenues by 11% y-y, continued growth of bad debt recovery by 33% y-y as well as a strong growth from overseas businesses.

As of November 30, 2018, the Company has active billings of 3.16 million transaction per month and 2.14 million active IDs which came from up-country 69% and Bangkok 31%. Details of each business can be described as follows:

- Credit Card

For the nine-month period of 2018, credit cards turnover accounted 63% of total turnovers with revenue of 5,646 million baht, an increase of 629 million baht or 13% y-y. In the third quarter of 2018, credit card revenue was 1,914 million baht, an increase of 222 million baht or 13% y-y and 2%q-q. In November 2018, the Company cooperated with JCB International (Thailand) to launch the AEON J-Premier Platinum Credit Card, which offering exclusive privileges in dining, travel and shopping under the concept “Extreme Japan Experience”. The AEON J-Premier Platinum Credit Card offers the special discount and cash back up to 18% when shopping at AEON Mall in Japan and up to 12% discount at JCB merchants. For every spending 20 baht, card member will earn 1 point and every 2 points will earn 1 Mile from Japan Airlines and Thai Airways. Moreover, they can enjoy the JCB lounge over 50 airports in Asia. Thus, the Company has focused on promotion activities to encourage customer's spending. For example the campaign AEON Gift 2019, AEON cardholders register via SMS or AEON Thai Mobile Application or website in order to redeem the premiums and vouchers. In addition, AEON Specialized Bank (Cambodia) Plc had credit card revenue of 25 million baht, grew by 80% y-y.

- Loans

For the nine-month period of 2018, loans shared 30% of total turnovers (shared 21% from personal loan and 9% from purposed loan for mobile phones, IT products, electrical appliances and etc. at department stores and our dealers nationwide) with the revenue of 7,933 million baht, an increase of 898 million baht or 13% y-y. In the third quarter of 2018, loans revenue was 2,689 million baht, an increase of 216 million baht or 9% y-y and 2% q-q. This is because the Company integrated the credit limit for purpose loan and cash loan (Your Cash), which the customers may use at maximum credit approved on either cash advance or installment loans (AEON Happy Pay). Thus, the Company provides more channels to facilitate financial services to customers and reduce Company's operation cost. Moreover, loan income from AEON Microfinance (Myanmar) Company Limited grew by 78% y-y and AEON Specialized Bank (Cambodia) Plc grew by 39% y-y.

- Hire Purchase

For the nine-month period of 2018, motorcycle and used car hire purchase in Thailand and electrical appliances, mobile phone and etc. in oversea business, with the revenues of 301 million baht, an increase of 20 million baht or 7% y-y due to hire purchase sale growth from overseas business which grew by 44% y-y and represented 78% of total hire purchase sales. In the third quarter of 2018, the Company had hire purchase revenue 111 million baht, an increase of 22 million baht or 24% y-y and 12% q-q. This was mainly contributed by auto loans business. In addition, the Company had hire purchase income from AEON

Specialized Bank (Cambodia) Plc that increased 12% y-y and AEON Leasing Service (Lao) Company Limited that increased 37% y-y.

- Others

For the nine-month period of 2018, other incomes were 1,456 million baht, showing an increase of 182 million baht or 14% y-y and represented 9% of total revenues. In the third quarter of 2018, other incomes were 511 million baht, an increase of 89 million or 21% y-y and 7% q-q. The increase was mainly from the continued growth of bad debt recovery that increased 33% y-y and 9% q-q. Moreover, the income for the nine month period of company's subsidiaries in Thailand, the Company had commission income from AEON Insurance Service (Thailand) Co., Ltd. amounted to 376 million baht, increasing by 4% y-y and collection service income from ACS Servicing (Thailand) Co., Ltd. amounted to 199 million baht, increasing 16% y-y

Expenses

The Company's expenses mainly consist of operating and administrative expenses, bad debt and doubtful accounts and finance cost. For the nine-month period, the Company had total consolidated expenses of 11,945 million baht, an increase of 887 million baht or 8% y-y. In the third quarter of 2018, the consolidated expenses were 4,091 million baht, an increase of 361 million baht or 10% y-y. Details of expenses are shown as follows:

- Operating and Administrative Expenses

For the nine-month period of 2018, the consolidated operating and administrative expense were 6,435 million baht, increasing by 7% y-y and represented 42% of total revenues. In the third quarter of 2018, the consolidated operating and administrative expenses were 2,146 million baht, increasing by 6% y-y, but decreasing by 2% q-q and represented 41% of total revenues. The expenses increase came from an increase in marketing expense and personal expense from overseas businesses.

- Bad debt and Doubtful accounts

The consolidated bad debts and doubtful accounts, for the nine-month period, amounted to 3,867 million baht, increasing by 11% y-y. In the third quarter of 2018, the Company recorded bad debts and doubtful accounts of 1,407 million baht, increasing by 19% y-y and 12% q-q. The increase of bad debt and doubtful accounts was mainly from the expansion of our loan portfolio.

- Finance Cost

For the nine-month period of 2018, the Company recorded finance cost of 1,643 million baht, increasing by 5% y-y. For the third quarter of 2018, the finance cost was 538 million baht, increasing by 2% y-y and decreasing by 3% q-q due to a lower interest rate from our subsidiary, the Special Purpose Vehicle project (SPV) and well-managed funding cost. However, finance cost in the third quarter of 2018 accounted for 10%. The average funding cost decreased from 3.32% in 2Q18 to 3.06% in 3Q18.

Net Profit

For the nine-month period of 2018, consolidated operating income was reported at 3,395 million baht, showing an increase of 848 million baht or 33% y-y. However, net profit from the Company was 2,690 million baht, showing an increase of 652 million baht or 32% y-y, and earning per share was 10.76 baht. In the third quarter of 2018, the Company had consolidated operating income of 1,136 million baht, an increase of 188 million baht or 20% y-y. The Company reported net profit attributed to owners of the parent of 901 million baht, showing an increase of 151 million baht or 20% y-y, 5% q-q and earning per share was 3.60 baht. The net profit in the third quarter of 2018 increased mainly from an increase in core business revenues, continued growth of bad debt recovery and account receivable as well as a strong growth from overseas businesses.

2. Financial Status

Total Assets

As of November 30, 2018, consolidated total assets were 86,356 million baht, an increase of 5,585 million baht or 7% from 80,771 million baht as of February 28, 2018. The main assets were attributed to the portfolio of net account receivables which shared 91% of total assets.

- Accounts Receivable

The Company has gross accounts receivable of 81,383 million baht (both current assets and non-current assets) as of November 30, 2018, an increase of 5,559 million baht or 7% from as of February 28, 2018. This can be categorized by business type as follows: credit card receivable 36,997 million baht, increasing by 7% y-y; loans receivable 42,490 million baht, increasing by 7% y-y; hire purchase receivable 1,753 million baht, increasing by 38% y-y and other receivable 143 million baht.

- Allowance for doubtful accounts

As of November 30, 2018, the Company provided allowance for doubtful accounts of 2,885 million baht or 3.54% of total accounts receivable, comparing to that of 2,416 million baht or 3.19% of total accounts receivable at the end of previous fiscal year. The percentage account receivable 3 month's overdue or non-performing loan ratio was 2.80%, increased from 2.35% at the end of last year but the increasing ratio is less than the previous quarter. The coverage ratio of allowance for doubtful accounts to accounts receivable overdue more than 3 months (NPLs) was 127% in the third quarter of 2018, lower from the end of fiscal year 2017 of 136%.

Liabilities

The consolidated liabilities of the Company as of November 30, 2018, totaling 68,789 million baht, an increase of 3,840 million baht or 6% from 64,950 million baht at the end of fiscal year 2017. This is a result of both short-term and long-term borrowings totally 64,996 million baht, increasing by 10% from the end of fiscal year 2017. The portion of long-term borrowings was 49,128 million baht or represented 76% of total borrowings, increased from 69% of fiscal year 2017.

On November 15, 2018, the Company has issued two tranches of debentures for Private Placement to institutional investors at the amount of 2,800 million baht comprise; (1) Tranche 1: Debenture term is 2 years and fixed interest rate at 2.96% per annum (2) Tranche 2: Debenture term is 3 years and fixed interest rate at 3.26% per annum. The debentures have been rated A-(tha) by Fitch Ratings (Thailand) Limited.

Shareholders' Equity

As of November 30, 2018, total shareholders' equity amounted to 17,567 million baht, an increase of 1,745 million baht or 11% from 15,822 million baht at the end of fiscal year 2017. Consequently, book value as of November 30, 2018 was 69 baht per share, increased from 62.9 baht per share as of February 28, 2018.

Debt to Equity ratio as of November 30, 2018, remained constant at 3.9 times. Return on Equity (ROE) and Return on Asset (ROA) for nine month period are 21.5% and 4.3%, respectively.