

No. CAZ 002/2019

26 February 2019

Subject: Management Discussion and Analysis Year ended 31 December 2018

Attention: The President

The Stock Exchange of Thailand

CAZ (Thailand) Public Company Limited (“the Company”) and its Subsidiary (“the Group”) would like to clarify the change in operating result for the year ended 31 December 2018, which net profit has changed more than 20% from the last year as follows :

Statement of Comprehensive Income

(Unit : Million Baht)

Details	31 Dec 2561	31 Dec 2560	Increased (Decreased)	% (%)
Revenues from construction contracts	1,387.08	1,019.29	367.80	36.08
- EPC Service	563.97	550.23	13.74	2.50
- Structure Mechanic and Pinging (SMP Service)	343.49	359.85	(16.36)	(4.55)
- Civil & Building Services	341.86	86.67	255.19	294.45
- Fabrication and Other services	137.77	22.55	115.22	511.03
Cost of construction contracts	(1,241.09)	(917.54)	323.55	35.26
Gross profit	145.99	101.75	44.24	43.48
Other income	2.79	2.69	0.10	3.66
Administrative expenses	(66.10)	(58.54)	7.56	12.92
Profit before finance cost and income tax	82.68	45.90	36.78	80.14
Finance cost	(12.90)	(16.65)	(3.75)	(22.54)
Profit before income tax	69.78	29.25	40.53	138.58
Income tax	(14.10)	(6.08)	8.02	131.83
Profit for the year	55.69	23.17	32.52	140.35
Profit attributable to:				
Owners of the parent	52.98	22.91	30.07	131.22
Non-controlling interests	2.71	0.26	2.45	58.82

1. Revenues from contraction contracts

On 2018, the Group has revenue from construction contracts total of 1,387.08 Million Baht, or 36.08% compared with 2017, or increased around 367.80 Million Baht. The main reason of revenue growth resulted from revenue recognition by % of completion of projects which were hired on 2016 – 2017 together new projects awarded on 2018 of 11 projects.

The portion of each segment revenue of 2017 – 2018 as follows;

Revenue by segment	2018 (Million Baht)	Portion (%)	2017 (Million Baht)	Portion (%)
1. EPC Service	563.97	40.66	550.23	53.98
2. SMP Service	343.49	24.76	359.85	35.30
3. Civil & Building Service	341.86	24.65	86.67	8.50
4. Fabrication and Other Service	137.77	9.93	22.55	2.21
Total construction service income	1,387.08	100.00	1,019.29	100.00

In 2018, the Group still has the largest proportion of revenue from EPC Service, representing 40.66% of total construction revenue slightly decreased from the previous year with the proportion of 53.98% of total construction revenue. As the customer in Petrochemical and Energy sector has project value more than 10,000 Million Baht, CAZ can perform construction service by being sub-contractor from the main contractors.

As at 31 December 2018, the Group has backlog for construction service in oil and gas sector totaling of 2,472.34 Million Baht. Also the Group has awarded new project during January – February 2019 amounting to 43.81 Million Baht.

2. Cost of construction contracts

The Groups has total cost of construction contracts of 2018 totaling of 1,241.09 Million Baht, or 89.48% of revenue of construction contracts which close to previous year which was 90.02% of cost of construction contracts. The Group's cost of construction contracts was increased to 323.55 Million Baht, comparing with last year. It was related to the increasing of revenue recognized.

3. Other revenue

The Group's other revenue comprise of office rental, sales scrap, or unused assets. On 2018, the Group's other revenue were total amount of 2.79 Million Baht, or 0.20% of total revenue. Increased by 0.10 Million Baht, or 3.66% compared with 2017.

4. Administrative expenses

On 2018, the Group's administrative expense total amount of 66.10 Million Baht, increased by 7.56 Million Baht, or 12.92% compared with 2017, resulted from increased in employee expenses & compensations, director remuneration expense, audit fee, training, and utilities.

5. Financial cost

The Groups' has long-term loan from a commercial bank since Q3-2016 for invested in property plant and equipment. The Groups' financial cost of 2018 total amount of 12.90 Million Bath, reduced by 3.75 Million Baht, or 22.54% compared with 2017 due to repayment principle loan during the period.

6. Profitability

On 2018, the Group's gross profit total amount of 145.99 Million Baht, or gross profit margin of 10.52% slightly increased from 2017 which was 9.98%, due to the efficiency project cost management together with reduced actual cost lower than budget costs.

The Group's net profit of 2018 was 55.69 Million Baht, or net profit margin of 4.01%, higher than previous year which was 2.26% resulted from the efficiency of construction cost management and well administrative expense controlling. Moreover, net profit margin has increased as revenue of construction contracts is continuing growth greater than increasing expense.

Statement of Financial Position

(Unit: Million Baht)

Details	31 Dec 2018	31 Dec 2017	Increased (Decreased)	%
Assets				
Current assets				
Cash and cash equivalents	35.22	91.98	(56.76)	(61.71)
Trade and other receivables	208.40	165.67	42.74	25.80
Unbilled receivables	273.72	88.85	184.87	208.08
Inventories	135.92	2.52	133.40	5,299.93
Refundable tax	-	17.06	(17.06)	100.00
Other current assets	6.85	4.84	2.02	41.70
Total current assets	660.11	370.90	289.21	77.97
Non-current assets				
Restricted bank deposits	20.79	-	20.79	n.a.
Property, plant and equipment	357.14	314.79	42.35	13.45
Intangible assets	11.65	9.13	2.52	27.64
Retention receivables	37.25	5.49	31.76	578.06
Withholding tax deducted at source	61.31	27.45	33.86	123.35
Deposits	0.85	0.95	(0.10)	(10.29)
Deferred tax assets	0.67	0.42	0.25	58.34
Total non-current assets	489.65	358.23	131.42	36.69
Total assets	1,149.76	729.13	420.63	57.69
Current liabilities				
Short-term borrowing from banks	59.18	-	59.18	n.a.
Trade and other payables	286.57	171.60	114.98	67.01
Service income received in advance	422.43	163.81	258.62	157.88
Current portion of long-term borrowings from banks	38.64	38.64	-	-
Current portion of liabilities under finance lease agreements	1.45	1.23	0.22	17.64

Details	31 Dec 2018	31 Dec 2017	Increased (Decreased)	%
Other current liabilities	22.16	21.45	0.71	3.33
Total current liabilities	830.43	396.72	433.71	109.32
Non-current liabilities				
Long-term borrowing form banks	143.70	182.34	(38.64)	(21.19)
Finance lease liabilities	3.00	1.27	1.73	135.85
Retention payables	7.96	5.49	2.47	44.99
Employee benefit obligations	3.07	1.79	1.28	71.29
Total non-current liabilities	157.72	190.89	(33.17)	(17.38)
Total liabilities	988.16	587.61	400.54	68.16
Equity				
Share Capital - Authorized	140.00	100.00	40.00	40.00
Issued and paid-up	100.00	100.00	-	-
Retained earning				
Appropriated - legal reserve	5.09	1.13	3.96	100.00
Unappropriated	44.31	29.98	14.33	47.80
Equity attributable to owners of the parent				
- Share based payment	8.45	6.37	2.08	32.70
Equity attributable to owners of the parent	157.85	137.48	20.37	14.82
Non-controlling interests	3.75	4.03	(0.28)	(6.90)
Total equity	161.60	141.51	20.09	14.20
Total liabilities and equity	1,149.76	729.12	420.63	57.69

Assets

As at 31 December 2018, the Group's total assets was 1,149.76 Million Baht, increased by 420.63 Million Baht, or 57.69% compared with 31 December 2017 which total assets was 729.13 Million Baht. The increasing of total assets come from the increased in trade and other receivables by 42.74 Million Baht, unbilled receivables increased by 184.87 Million Baht which in line with the increased in revenue recognized by percentage of completion. Moreover, inventories were increased by 133.40 Million Baht, which are raw material for construction projects.

The Group's invested in property, plant and equipment, including intangible assets in order to increase capabilities and support new projects. By this reason cause the Group's non-current assets as 31 December 2018, increased by 131.42 Million Baht, or 36.69% compared with last year.

Liabilities and equity

As at the end of 2018, the Group's liabilities and equity were 1,149.76 Million Baht, increased by 420.63 Million Baht, or 57.69% compared with 2017. Total liabilities of 988.16 Million Baht, increased 400.54 Million Baht or 68.16% compared to 2017. Current liabilities at the end of 2018 consist of;

- Short-term loans from the bank for use as working capital in the Group of 59.18 Million Baht. However, the Group's has repayment all short-term loans in January 2019.
- Trade and other payables amounted to 286.57 Million Baht, an increase of 67.01% due to the purchase of products and construction materials and outsourcing subcontractors.
- Advance received from construction projects (Service income received in advance) in the amount of 422.43 Million Baht, increased from the year 2017 in the amount of 258.62 Million Baht or 157.88%, as a result of the advance received money that the company received when starting work from the project.
- Long-term loans from banks amounting to 182.34 Million Baht, which decreased from the previous year due to the repayment in accordance with the contract and the duration.

For shareholders' equity to the parent Company as of December 31, 2018, the amount of 157.85 Million Baht increased from the year 2017 in the amount of 20.37 Million Baht, or 14.82%. This is the result of the Group's operating results with net profit for the year of 52.98 Million Baht. In addition, during the year 2018, the Group paid dividends of 20.99 Million Baht.

In January 2019, the Group offered to sell 80,000,000 new shares for the Initial Public Offering (IPO). At the price of 3.90 Baht per share, totaling of 312.00 Million Baht. The company's shares commence trading on the mai stock exchange on 22 January 2019. The objective of raised fund is for bank collateral total amount 100.00 Million Baht, investment in construction equipment and IT system of 40 Million Baht, and the Group's working capital total amount of 172 Million Baht.

Please be informed accordingly.

Sincerely yours,

(Mr. Chung Sik Hong)

Chief Executive Officer