

May 28, 2019

Subject Management Discussion and Analysis for the year ended 31st March 2019

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 year ended 31st March 2019 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For the year ended 31 st March			
	Apr 2018 - Mar 2019	Apr 2017 - Mar 2018	Change	% Change
Revenue from sales & service	3,293.90	3,376.19	-82.29	-2.4%
Other income	25.33	31.38	-6.05	-19.3%
Total revenue	3,319.23	3,407.57	-88.34	-2.6%
Cost of goods sold & service	2,882.47	2,893.97	-11.50	-0.4%
Selling & distribution expenses	67.77	66.05	1.72	2.6%
Administrative expenses	115.49	106.14	9.35	8.8%
Total expenses	3,065.73	3,066.16	-0.43	0.0%
Earning before interest and tax	253.50	341.41	-87.91	-25.8%
Finance cost	-5.55	-4.83	-0.72	14.9%
Share of profit from investment in associate	2.14	1.44	0.70	48.6%
Income tax expenses	-49.39	-67.95	18.56	-27.3%
Net profit	200.70	270.07	-69.37	-25.7%
Minority interest in subsidiary	-57.11	-61.89	4.78	-7.7%
Net profit of the Company	143.59	208.18	-64.59	-31.0%

1. Operating Performance

For the year ended 31st March 2019 the Company and its subsidiaries had net profit of Baht 143.59 million or decreased by 64.59 million or 31.0 percent from previous year, compared with the net profit of Baht 208.18 million in previous year. This is due to the higher intensive competition in stainless steel pipes aluminum and copper in the market, the ending of projects together and lower global price of materials which all were resulting to the decreasing in the sales. Eventually, there were the impacts to the lower gross profit.

The profit before interest and tax decreased by Baht 87.91 million whereas corporate tax decreased by 18.56 million, financial cost slightly increased by Baht 0.72 million and profit sharing to minority shareholders also decreased by Baht 4.78 million in current year.

1.1 Revenue

For the year ended 31st March 2019, the Company and its subsidiaries had revenue from sales and service of Baht 3,293.90 million compared with Baht 3,376.19 million in the same period of the previous year, which decreased by 2.4 percent. The decrease in sales was due to the lower average prices in main products like copper, aluminum and stainless pipe following the lower global material price and intensive competition.

The majority sales of Company comprised of metal like stainless steel and non-ferrous metal like copper and aluminum whereas sales of a new subsidiary company mostly came from Stainless Copper and Aluminum as the main product groups among various industries, mainly in particular for automotive, electrical appliance and construction.

The Company and its subsidiaries' revenue from the sales of goods are mostly revenue from domestic sales. For the year ended 31st March 2019, the Company and its subsidiaries had revenue from domestic sales of 99.82 percent of total revenue from sales and services.

1.2 Other income

Other income consists of interest income, gain from asset sales and revenue from scrap sales. For the year ended 31st March 2019, the Company and its subsidiaries had other income of Baht 25.33 million or decreased by 19.3 percent from the same period previous year. Other income decreased from the lower disposal amount than last year of the old and unused equipment.

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

Majority of cost of goods sold are cost of raw material are cold rolled stainless steel sheet, coil and pipes which the Company and its subsidiaries process. For the year ended 31st March 2019, the Company and its subsidiaries had cost of goods sold of Baht 2,882.47 million, or accounting for 86.84 percent of the total revenue in comparing with Baht 2,893.97 million, or accounting for 84.93 percent of total revenue of previous year. Cost of goods sold decreased by 0.4 percent whereas sales & service decreased by 2.4 percent.

1.4 Selling & distribution expenses

Selling & distribution expenses mostly consist of sale staff expenses, transportation expenses and promotional expenses. For the year ended 31st March 2019, the Company and its subsidiaries had selling expenses of Baht 67.77 million, compared with selling expenses of Baht 66.05 million in the same period of the previous year which increased by 2.6 percent. Most of the higher expenses are staff expenses that are normally increased year by year.

For the period of year ended 31st March 2019, the selling & distribution expenses were 2.06 percent, increased when comparing to 1.96 percent of revenue from sales and service in the same period of 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 year ended 31st March 2019, the Company and its subsidiaries had administrative expenses of Baht 115.49 million, compared with administrative expenses of Baht 106.14 million in the previous year which increased by 8.8 percent. The higher expenses are mainly in area of personnel costs due to salary normally increased year by year and other administrative expenses.

For the year ended 31st March 2019, the administrative expenses was 3.48 percent of total revenue, increased in compared with administrative expenses of 3.11 percent of total revenue in the same period of the previous year.

1.6 Earning (loss) before interest and tax and Net Profit (loss)

For the year ended 31st March 2019, the Company and its subsidiaries had profit before interest and tax of Baht 253.50 million. After deducting the finance cost of Baht 5.55 million, income tax of Baht 49.39 million, net profit sharing to minority shareholders of subsidiary of Baht 57.11 million and adding the profit sharing from investment in related of Baht 2.14 million, the net profit of the Company and its subsidiaries stood at Baht 143.59 million. When comparing to the profit before interest and tax and the net profit of the same period of the previous year which stood at Baht 341.41 million and Baht 208.18 million respectively, the net profit of the present year decreased by 31.0 percent.

1.7 Share of income from investment in associate

In April 2009, the Company invested in the ordinary shares of Mory Lohakit (Thailand) Co.,Ltd. by holding 49 percent of total shares. As for the accounting year ended 31st March 2019 and 2018, the company and its subsidiary recognized share of profit by equity method of Baht 2.14 million and Baht 1.44 million respectively. The share of profit was higher due to lower personal expenses in the current year compared to the previous year.

1.8 Income tax expense

For the year ended 31st March 2019, the Company and its subsidiaries had corporate tax of Baht 49.38 million or decrease by 27.3 percent due to the lower in operating profit.

1.9 Profit sharing to minority shareholders of subsidiary company

On Oct 1 2010, the company sold partial investment in a subsidiary company to Japanese alliance, Mory Industrial Inc., As of 31st March 2019, the Company and its subsidiaries recognized profit sharing to minority shareholders according to the percentage of its shareholding in full year which was amount by 57.11 million, decreased from amount by 61.89 million of previous year by 7.7 percent. The decreased was due mainly to the higher sales and administrative expenses of a subsidiary who is the manufacturer of exhausted pipe in automotive industry.

1.10 Profitability

For the year ended 31st March 2019, the Company and its subsidiaries had higher gross profit margin of 12.49 percent compared with gross profit margin of 14.28 percent in the same period the previous year. This was mainly due to lower sales in the higher margin segment like stainless steel and lower in overall sales.

For the year ended 31st March 2019, the Company and its subsidiaries had net profit margin of 4.33 percent compared with net profit of 6.11 percent in the same period of the previous year. The decrease in net profit was mainly from the lower gross margin together with higher administrative expenses.

(Unit: Baht million)

Consolidated balance sheets	As at 31 st Mar 2019		As at 31 st Mar 2018	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	314.32	13.40%	488.97	20.70%
Short-term investment	4.38	0.19%	4.85	0.21%
Account receivable, trade and others	673.05	28.70%	706.03	29.89%
Inventories	716.37	30.54%	663.32	28.08%
Other current assets	5.91	0.25%	3.24	0.14%
Total current assets	1,714.03	73.08%	1,866.41	79.02%
Non-current assets				
Restricted bank deposits	46.18	1.97%	46.18	1.96%
Investment in associate	9.67	0.41%	12.43	0.53%
Long-term investment	3.51	0.15%	2.76	0.12%
Property, plant and equipment	544.27	23.20%	412.07	17.45%
Intangible assets	0.37	0.02%	0.57	0.02%
Deferred tax assets	15.56	0.66%	17.90	0.76%
Other non-current assets	11.94	0.51%	3.71	0.16%
Total non-current assets	631.50	26.92%	495.62	20.98%
TOTAL ASSETS	2,345.53	100.00%	2,362.03	100.00%
LIABILITIES				
Current liabilities				
Short term loans from banks	92.25	3.93%	35.84	1.52%
Account payables, trade and others	516.82	22.03%	563.80	23.87%
Income tax payable	20.12	0.86%	30.95	1.31%
Other current liabilities	8.56	0.37%	10.33	0.43%
Total current liabilities	637.75	27.19%	640.92	27.13%
Non-current liabilities				
Provision for long-term employee benefits	41.37	1.76%	36.51	1.55%
Total non-current liabilities	41.37	1.76%	36.51	1.55%
TOTAL LIABILITIES	679.12	28.95%	677.43	28.68%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	16.33%	383.00	16.22%
Premium on stock	519.67	22.16%	519.67	22.00%
Retained earnings				
Legal reserve	74.90	3.19%	74.10	3.14%
Un-appropriated	468.04	19.96%	493.53	20.89%
Non-controlling interest of the subsidiary	220.80	9.41%	214.30	9.07%
Total shareholders' equity	1,666.41	71.05%	1,684.60	71.32%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,345.53	100.00%	2,362.03	100.00%

2. Financial Status

2.1 Assets

As for the assets value as at 31st March 2019 and 2018, the Company and its subsidiaries had total assets of Baht 2,345.53 million and Baht 2,362.03 million respectively. Cash and trade accounts receivable decreasing by -174.65 baht and -32.98 baht respectively. Inventories increased by 53.05 million baht and fixed assets increased by 132.20 million baht mainly due to the purchase of new land with existing building thereon. 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 31st March 2019 and 2018 the Company and its subsidiaries had net inventories of Baht 716.37 million (or 30.54 percent of total assets) and Baht 663.32 million (or 28.08 percent of total assets) respectively. The increase in inventories was mainly material, preparing for upcoming sales.
- 2.1.2 Trade account receivables – other parties: As at 31st March 2019 and 2018, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 673.05 million (or 28.70 percent of total assets) and Baht 706.03 million (or 29.89 percent of total assets) respectively. Trade receivables increased due to the higher sales in last quarter.
- 2.1.3 Land, plant and equipments - Land and improvements, building, machinery, office equipments, vehicles and work on progress of construction: As at 31st March 2019 and 2018, the Company and its subsidiaries had Land, plant and equipments – net of Baht 544.27 million (or 23.20 percent of total assets) and Baht 412.07 million (or 17.45 percent of total assets) respectively. During the year, a subsidiary has purchased land with a building worth 125 million baht to expand its production area, warehouse and delivery. The building is still in the process of preparing for readiness to use in the next phase.
- 2.1.4 Restricted bank deposit: As at 31st March 2019 and 2018, the Company and its subsidiaries had net value of Baht 46.18 million (or 1.97 percent of total assets and 1.96 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 31st March 2019 and 2018, the Company and its subsidiaries had net value of Baht 15.56 million and Baht 17.90 million respectively (0.66 percent and 0.76 percent of total assets respectively).

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as at 31st March 2019 and 2018 stood at Baht 679.12 million and Baht 677.43 million respectively. The increase in liabilities was mainly in short term loans from financial institution by Baht 56.41 million to pay off the purchase of raw materials.

2.3 Shareholders' equity

As at 31st March 2019 and 2018, shareholders' equity was Baht 1,666.41 million and Baht 1,684.60 million or decrease by -18.19 million. The major changes were during the period were from the net profit amounting to Baht 200.70 million and dividend payment of Baht - 218.92 million. Therefore, portions of company shareholding interest and non-controlling interest of subsidiary stood at Baht 1,445.61 million and Baht 220.80 million respectively.

Debt to Equity ratio as at 31st March 2019 and 2018 were 0.41 and 0.40 times respectively.

(Unit: Baht million)

Consolidated cash flows statement	As at 31st Mar 2019	As at 31st Mar 2018
Net cash from (used in) operating activities	166.38	480.45
Net cash used in investing activities	-178.47	-10.29
Net cash from (used in) financing activities	-162.52	-218.65
Effect of exchange rate to cash and cash equivalent	-0.04	0.01
Net increase (decrease) in cash	-174.65	251.52

3. Cash flows

For the year ended 31st March 2019, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 166.38 million, consisting of baht 231.96 million positively from operating performance and net negative working capital of Baht -65.58 million. Most negative in working capital was from the payment of trade creditors and keeping more stocks.

Net cash flow from investing activities was -178.47 million baht, with a main investment in new land with building, solar rooftop project and other equipment of -189.30 million baht. There were cash received from dividend and equipment disposal by 5.06 million and 4.59 million baht respectively.

The financing part was net Baht -162.52 million by drawing up short term loan 56.40 million to settle trade creditors and payment of dividend by Baht -218.92 million.

In total, net cash for the period was decreased by Baht -174.65 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)
Deputy Managing Director