

Aug 14, 2019

Subject Management Discussion and Analysis for the period of three months ended 30th June 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 period of three months ended 30th June 2019 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 2019 - June 2019	Apr 2018 - June 2018	Change	% Change
Revenue from sales & service	719.81	853.77	-133.96	-15.7%
Other income	5.57	6.29	-0.72	-11.4%
Total revenue	725.38	860.06	-134.68	-15.7%
Cost of goods sold & service	638.35	743.25	-104.90	-14.1%
Selling expenses	15.50	16.10	-0.60	-3.7%
Administrative expenses	36.60	28.79	7.81	27.1%
Total expenses	690.45	788.14	-97.69	-12.4%
Earning before interest and tax	34.93	71.92	-36.99	-51.4%
Financial expenses	-1.16	-1.33	0.17	-12.8%
Share of income from investment in associate	0.52	0.42	0.10	23.8%
Corporate Income tax expenses	-6.58	-14.11	7.53	-53.4%
Net profit for the period	27.71	56.90	-29.19	-51.3%
Profit Sharing for non-controlling interest of a subsidiary company	-10.18	-13.59	3.41	-25.1%
Net profit for the company and its subsidiaries	17.53	43.31	-25.78	-59.5%

1. Operating Performance

For the period of three months ended 30th June 2019, the net profit was Baht 17.53 million, decreased by 25.78 million or decreased by 59.5 percent 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 reasons was the weaken sales due to seasonal factors together with the impact of trade wars that have the broad impact on Thailand's exports. As such, company customers who are the manufacturers for export have delay purchasing to their weaker demand. The selling price of various products has also decreased according to the price of global raw materials and the increasing in competition among entrepreneurs under the situation of excess supply from products and raw materials coming in from various countries. Therefore those factors have been affecting sales both in terms of quantity, selling price and eventually resulting to softer gross profit of various group products in higher competition. In terms of expenses in the current quarter, the company has controlled the selling and administrative expenses for more efficiency. However, the Company and its subsidiaries have set aside provision for additional employee benefits at the amount of approximately 7.7 million baht in order to comply with the Labor Protection Act, revised and announced in 2019.

Beside, company and its subsidiaries recorded the profit sharing to non-controlling interest in a subsidiary by Baht 10.18 million, decreased by Baht 3.41 million from the same period of previous year due to the decrease 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 2019, the Company and its subsidiaries had revenue from sales and service of Baht 719.81 million compared with Baht 853.77 million in the same period of the previous year or decreased by 15.7 percents. This is due to the decrease in sales weight and the average selling price of stainless steel, copper, aluminum products which are coil and sheet and as the main product groups. Selling price has also decreased according to the raw material prices in the world market, together with higher competition when comparing to the same period of the previous year. In addition, the sales volume of automotive exhaust pipes for export portion was also reviewed to adjust by the car manufacturers due to the impact of the trade war while Thailand was the production base for export about 50 percent of vehicle manufacturing.

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 2019, the Company and its subsidiaries had other income of Baht 5.57 million which decreased by 11.4 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 2019, the Company and its subsidiaries had cost of goods sold of Baht 638.35 million, or accounting for 88.00 percent of the total revenue in comparing with Baht 743.25 million, or accounting for 86.42 percent of the total revenue of previous year. The cost of goods sold of the company and its subsidiaries decreased by 14.1 percent compared with the same period last year, while revenues from sales and services decreased by 15.7 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 2019, the Company and its subsidiaries had selling expenses of Baht 15.50 million, compared with selling expenses of Baht 16.10 million in the same period of the previous year which decreased by Baht 0.60 million or 3.7 percent due to more efficiency control. The selling expenses ratio for the period of three months ended 30th June 2019 was 2.15 percent of sale and service, higher in compared with selling expenses ratio of 1.89 percent of sale and service in the same period of the previous year. This higher selling ratio was mainly due to contraction of sale by 15.7% in the quarter.

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 2019, the Company and its subsidiaries had administrative expenses of Baht 36.60 million, compared with administrative expenses of Baht 28.79 million in the same period of the previous year which increased by 27.1 percent due to the Company and its subsidiaries have set one time provision for additional employee benefits at the amount of

approximately 7.7 million baht in order to comply with the Labor Protection Act, revised and announced in 2019.

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 quarter ended 30th June 2019 was 5.05 percent of total revenue, sharply increase in compared with administrative expenses of 3.35 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 2019, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.52 million in consolidated income statements in which increased by Baht 0.10 million or 23.8 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 2019, the Company and its subsidiaries had profit before interest and tax of Baht 34.93 million. After deducting the financial expense of Baht 1.16 million and income tax of Baht 6.58 million and adding the share of income from investment of Baht 0.52 million, the net profit of the Company and its subsidiaries was at Baht 27.71 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 71.92 million and Baht 56.90 million respectively, the profit before interest and tax and net profit of the present period decreased by 51.4 percent and 51.3 percent respectively.

In addition, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 10.18 million for the present period or decrease by Baht 3.41 million from 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 2019 was Baht 17.53 million, comparing to Baht 43.31 million in the same period of previous year.

1.8 Corporate income tax

For the three months ended 30th June 2019, the Company and its subsidiaries recognized corporate tax expenses by 6.58 million or decreased by 53.4 percent, when comparing to corporate tax expenses by 14.11 million in the same period of previous year. This was mainly due to lower 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 10.18 million for the three month period ended 30th June 2019, comparing to Baht 13.59 million in the same period of previous year.

1.10 Profitability

For the period of three months ended 30th June 2019, the Company and its subsidiaries had gross profit margin of 11.32 percent, reduced by 1.63 percent when compared with gross profit margin of 12.95 percent in the same period of the previous year. The lower gross margin was mainly due to the average selling price that decreased according to the raw material price in the global market, together with the higher competition between the operators.

(Unit: Baht million)

Consolidated balance sheets	As at 30 th Jun 2019		As at 31 st Mar 2019	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	302.30	13.27%	314.32	13.40%
Short-term investment	3.79	0.17%	4.38	0.19%
Account receivable, trade and others	650.76	28.56%	673.05	28.70%
Inventories	688.99	30.24%	716.37	30.54%
Other current assets	4.02	0.17%	5.91	0.25%
Total current assets	1,649.86	72.41%	1,714.03	73.08%
Non-current assets				
Restricted bank deposits	46.18	2.03%	46.18	1.97%
Investment in associate	10.19	0.45%	9.67	0.41%
Long-term investment	4.02	0.17%	3.51	0.15%
Property, plant and equipment	538.42	23.63%	544.27	23.20%
Intangible assets	0.32	0.01%	0.37	0.02%
Deferred tax assets	17.52	0.77%	15.56	0.66%
Other non-current assets	11.94	0.53%	11.94	0.51%
Total non-current assets	628.59	27.59%	631.50	26.92%
TOTAL ASSETS	2,278.45	100.00%	2,345.53	100.00%
LIABILITIES				
Current liabilities				
Short term loans from banks	72.77	3.20%	92.25	3.93%
Account payables, trade and others	451.29	19.81%	516.82	22.03%
Income tax payable	28.56	1.25%	20.12	0.86%
Other current liabilities	8.69	0.38%	8.56	0.37%
Total current liabilities	561.31	24.64%	637.75	27.19%
Non-current liabilities				
Provision for long-term employee benefits	50.45	2.21%	41.37	1.76%
Total non-current liabilities	50.45	2.21%	41.37	1.76%
TOTAL LIABILITIES	611.76	26.85%	679.12	28.95%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	16.81%	383.00	16.33%
Premium on stock	519.67	22.81%	519.67	22.16%
Retained earnings				
Legal reserve	74.90	3.28%	74.90	3.19%
Un-appropriated	485.98	21.33%	468.04	19.96%
Non-controlling interest of the subsidiary	203.14	8.92%	220.80	9.41%
Total shareholders' equity	1,666.69	73.15%	1,666.41	71.05%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,278.45	100.00%	2,345.53	100.00%

2. Financial Status

2.1 Assets

As for the assets value as at 30th June and 31st March 2019, the Company and its subsidiaries had total assets of Baht 2,278.45 million and Baht 2,345.53 million respectively. Cash, trade accounts receivable and inventory decreased by 12.02 million baht, 22.29 million baht and 27.38 million baht respectively, following the contraction in sales. 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 and 31st March 2019 the Company and its subsidiaries had net inventories of Baht 688.99 million (or 30.24 percent of total assets) and Baht 716.37 million (or 30.54 percent of total assets) respectively. The decrease in inventories were mainly following the lower sales and decrease in global material price.
- 2.1.2 Trade account receivables – other parties: As at 30th June and 31st March 2019, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 650.76 million (or 28.56 percent of total assets) and Baht 673.05 million (or 28.70 percent of total assets) respectively. Trade receivables decreased in following to the lower sales.
- 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 and 31st March 2019, the Company and its subsidiaries had Land, plant and equipments – net of Baht 538.42 million (or 23.63 percent of total assets) and Baht 544.27 million (or 23.20 percent of total assets) respectively.
- 2.1.4 Restricted bank deposit: As at 30th June and 31st March 2019, the Company and its subsidiaries had net value of Baht 46.18 million (or 2.03 percent of total assets and 1.97 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 and 31st March 2019, the Company and its subsidiaries had net value of Baht 17.52 million and Baht 15.56 million respectively (0.77 percent and 0.66 percent of total assets respectively).

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as at 30th June and 31st March 2019 stood at Baht 611.76 million and Baht 679.12 million respectively. The decrease in liabilities was mainly due to decreasing in current liabilities, reflecting lower purchases of raw materials in the meantime. In addition, the company and its subsidiaries have additional long-term liabilities following the setting of one time provision for additional employee benefits of approximately 7.7 million baht in order to comply with the Labor Protection Act. Revised and announced in 2019.

2.3 Shareholders' equity

As at 30th June and 31st March 2019, shareholders' equity was Baht 1,666.69 million and Baht 1,666.41 million or increase by 0.28 million. The major changes were the net profit amounting to Baht 27.71 million and dividend payment by a subsidiary of Baht 27.84 million. Therefore, portions of company shareholding interest and non-controlling interest of subsidiary stood at Baht 1,463.55 million and Baht 203.14 million respectively.

Debt to Equity ratio as at 30th June and 31st March 2019 were 0.37 and 0.41 times respectively. The lower D/E ratio was due to lower current liabilities as a result of lower raw material purchase and the contraction of sales in this quarter.

(Unit: Baht million)

Consolidated cash flows statement	As at 30th Jun 2019	As at 30th Jun 2018
Net cash from (used in) operating activities	41.70	-26.92
Net cash used in investing activities	-6.38	3.11
Net cash from (used in) financing activities	-47.32	57.12
Effect of exchange rate to cash and cash equivalent	-0.02	0.09
Net increase (decrease) in cash	-12.02	33.40

3. Cash flows

For the year ended 30th June 2019 and 2018, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 41.70 million, consisting of baht 56.14 million positively from operating performance and net negative working capital of Baht -14.44 million. The net positive cash flow in working capital came from down-sizing amounts of account receivable and inventory, while net negative cash flow locate in payment of trade payable.

Net cash flow from investing activities was -6.38 million baht, with regular investment in equipment and no major investment in this quarter.

The financing part was net Baht -47.32 million by settlement of short term loan -19.48 million and payment of dividend by Baht -27.84 million.

In total, net cash for the period was decreased by Baht -12.02 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)
Deputy Managing Director