

Ref: AC.034/2019

14 November 2019

Subject: Management discussion and analysis of financial position and operating results

To: President and Manager

The Stock Exchange of Thailand

Overall operating performance of the Group

Unit: Million Baht

	Q3' 2019	Q3' 2018	Increase (decrease)	Variance (%)
Total revenues	1,701	1,875	(174)	(9%)
Net profit	112	137	(25)	(18%)

The Group's total revenues for the third quarter of 2019 amounted Baht 1,701 million, which was decreased by Baht 174 million or a decrease of 9% compared to the total revenues for the third quarter of 2018 amounting to Baht 1,875 million. The decrease was mainly due to the lower revenue from enterprise solution business.

The Group's profit for the third quarter of 2019 amounted to Baht 112 million, which was decreased by Baht 25 million or an decrease of 18% compared to the profit for the third quarter of 2018 amounting to Baht 137 million. The decrease was mainly due to the lower gross profit from smart service business.

Analysis of revenues

	Q3' 2019		Q3' 2018		Increase (decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Revenues from main business						
EMS business	346	20%	389	21%	(43)	(11%)
Enterprise solution business	448	27%	553	29%	(105)	(19%)
Smart service business	839	49%	867	46%	(28)	(3%)
Total revenues from main business	1,633	96%	1,809	96%	(176)	(10%)
Other income	68	4%	66	4%	2	3%
Total revenues	1,701	100%	1,875	100%	(174)	(9%)

EMS business

The Company had revenue from EMS business for the third quarter of 2019 amounting to Baht 346 million, a decrease of Baht 43 million or a decrease of 11% compared to that of the previous year amounting to Baht 389 million. It resulted from a decrease in orders from one of the major customers of the manufacture and assembly of electronic circuit boards business unit.

Enterprise solution business

The Company had revenue from Enterprise solution business for the third quarter of 2019 amounting to Baht 448 million, a decrease of Baht 105 million or a decrease of 19% compared to that of the previous year amounting to Baht 553 million. It was due to the projects that occurred in the previous year were 2 large projects while the projects that occurred in this year were many small to medium projects.

Smart service business

The Company had revenue from Smart service business for the third quarter of 2019 amounting to Baht 839 million, a decrease of Bath 28 million or a decrease 3% compared to that of previous period amounting to Baht 867 million. There was no significant change compared to the same period of the previous year.

Gross Profit and Gross Profit Margin

	Q3' 2019		Q3' 2018		Increase (decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
EMS business	61	18%	72	19%	(11)	(15%)
Enterprise solution business	126	28%	123	22%	3	2%
Smart service business	188	22%	229	26%	(41)	(18%)
Gross Profit	375	23%	424	28%	(49)	(12%)

EMS business

The Company had gross profit for the third quarter of 2019 amounting to Baht 61 million, which was decreased by Baht 11 million or a decrease of 15% compared to that of the previous year. This is in line with the lower revenue from EMS business. Gross profit margin for the third quarter of 2019 was at the rate of 19%. There was no significant change compared to the same period of the previous year.

Enterprise solution business

The Company had gross profit for the third quarter of 2019 amounting to Baht 126 million. There was no significant change compared to the same period of the previous year. Gross profit margin for the third quarter of 2019 was increased from 22% to 28%. This is because the project revenue recognition in this year has lower value than those of last year. Most of the small and medium project projects have a higher gross profit margin than large projects.

Smart service business

The Company had gross profit for the third quarter of 2019 amounting to Baht 188 million, which was decreased by Baht 41 million or a decrease of 18% compared to the gross profit of Baht 229 million for the third quarter of 2018. Gross profit margin for the third quarter of 2018 was decreased from 26% to 22%. This is because product/service cost mix changed, with the proportion of cost of non-mobile top-up service increasing.

Expenses and expenses to revenues from main business

	Q3' 2019		Q3' 2018		Increase (decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Selling expenses	26	2%	20	1%	6	30%
Administrative expenses	196	12%	198	11%	(2)	(1%)
Finance cost	25	2%	31	2%	(6)	(19%)
Income tax expenses	17	1%	34	2%	(17)	(50%)

Selling expenses

Selling expenses for the third quarter of 2019 and the selling expenses to revenue from main business were not significant change compared to the same period of last year.

Administrative expenses

Administrative expenses for the third quarter of 2019 and the administrative expenses to revenue from main business were not significant change compared to the same period of the previous year.

Finance cost

The financial cost for the third quarter of 2019 and the finance cost to revenue from main business were not significant change compared to the same period of the previous year.

Income tax expenses

Income tax expenses for the third quarter of 2019 amounted to Baht 17 million, a decrease of Baht 17 million or a decrease of 50% from the same period of last year. This is consistent with the decreased profit.

Financial position

Assets

Unit: Million Baht

	30 September 2019	31 December 2018	Increase (decrease)	% Variance
Current assets	4,354	5,310	(956)	(18%)
Non-current assets	3,434	3,560	(126)	(4%)
Total assets	7,788	8,870	(1,082)	(12%)

Total assets as at 30 September 2019 amounted to Baht 7,788 million, a decrease of Baht 1,082 million or a decrease of 12% compared to the total assets as at 31 December 2018, amounting to Baht 8,870 million. The decrease was mainly from trade and other receivables and unbilled receivables.

The quality of assets

Trade account receivables

Unit: Million Baht

	Consolidated financial statements	
	30 September 2019	31 December 2018
Trade account receivables - unrelated parties	1,343	2,455
Less: Allowance for doubtful accounts	(54)	(55)
Trade account receivables - net	1,289	2,400

As at 30 September 2019 and 31 December 2018, the Group had the allowance for doubtful accounts, amounting to Baht 54 million and Baht 55 million, respectively. The Group's policy on allowance for doubtful accounts is based on past collection history, aging profile of outstanding debts and the prevailing economic condition. Management believed that allowance for doubtful accounts is adequate in the current circumstances.

Inventories

Unit: Million Baht

	Consolidated financial statements	
	30 September 2019	31 December 2018
Inventories	1,376	1,335
Reduce cost to net realisable value	(404)	(367)
Inventories - net	972	968

As at 30 September 2019 and 31 December 2018, the Group had the reduction of cost to net realisable value amounting to Baht 404 million and Baht 367 million, respectively. The Group estimates net realisable value of inventories taking into the account fluctuations of price or cost directly related to events occurring after the end of the period and movements of inventories and the prevailing economic condition. Management believed that the reduce cost to net realisable value is adequate in the current circumstances.

Source of fund

Unit: Million Baht

	30 September 2019	31 December 2018	Increase (decrease)	% Variance
Current liabilities	5,283	5,903	(620)	(11%)
Non-current liabilities	273	461	(188)	(41%)
Total liabilities	5,556	6,364	(808)	(13%)
Total shareholders' equity	2,232	2,506	(274)	(11%)

Liabilities

Total liabilities as at 30 September 2019 were Baht 5,556 million, a decrease of Baht 808 million or a decrease of 13% compared to the total liabilities as at 31 December 2018, which was Baht 6,364 million. The decrease was mainly due to the decrease of trade and other payables.

Shareholders' equity

Total shareholders' equity as at 30 September 2019 were Baht 2,232 million, a decrease of Baht 274 million, or a decrease of 11% compared to the total shareholders' equity as at 31 December 2018, which was Baht 2,506 million. The change was due to the net profit for the period, the dividend payment to the shareholders and the share repurchase of the Company.

The appropriate of capital structure

The debt to equity ratio as at 30 September 2019 was 2.49:1. There was not significant change compared to the debt to equity ratio as at 31 December 2018, which was 2.54: 1.

Liquidity

Cash flows

Unit: Million Baht

	Q3' 2019	Q3' 2018
Cash flows from (used in) operating activities	1,654	289
Cash flows from (used in) investing activities	(459)	(420)
Cash flows from (used in) financing activities	(1,174)	(370)

Cash flows from operating activities for the third quarter of 2019 were Baht 1,654 million, increased by Baht 1,365 million compared to that of the previous year amounting to Baht 289 million. It resulted from the decrease of working capital i.e. trade receivables, unbilled receivables, trade payables etc.

Cash flows used in investing activities for the third quarter of 2019 were Baht 459 million, increased by Baht 39 million compared to that of the prior year amounting to Baht 420 million. It was due to loans to service representatives of a subsidiary.

Cash flows used in financing activities for the third quarter of 2019 were Baht 1,174 million, increased by Baht 804 million compared to that of the same period of last year amounting to Baht 370 million. This is because in the previous year, there was an additional short-term and long-term loans used for working capital and asset acquisition.

Liquidity ratio

Current ratio as at 30 September 2019 was 0.82:1. There was not significant change compared to the current ratio as at 31 December 2018, which was 0.90:1.

Please be informed accordingly.

Yours sincerely,

(Mr. Arin Jamnaree)

Financial Controller