



บริษัท เอียร์สูร์ดีน จำกัด (มหาชน)

TSR.IR. 002/2020

26 February 2020

Subject: Management Discussion & Analysis for Y2019 of Thiensurat Group

To: President

The Stock Exchange of Thailand

For Y2019, the Group had a net profit of Baht 109.63 Million compared to a profit of Baht 106.79 Million for Y2018, it was continuous improved even Thailand Economic was slow down so that the profit for the result of Y2019 was slightly higher than the result of Y2018 by Baht 2.84 Million or increased by 2.66% because of a continuous increase sale of water purifiers through an increase of direct sale teams management after the second half of Y2019 onward including with a significant decrease of bad and doubtful debts expenses with continuous monitoring and management closely. As a result, the Group's Earning per Share (EPS) for Y2019 was Baht 0.199 compared to Baht 0.205 per Share for Y2018.

During the Year 2019, the major highlights were:-

- The Group continued to develop traditional direct sale to O-2-O (Online to Offline) model under the marketing strategy of Digital Marketing by recruiting telemarketing seats to serve call for old and new customers to sell both electrical appliances and water filters with the strength of PONSaBUY Program, and comprehensively sale network in Thailand as well as launching a plan to have the advertising for water purifier via television and bill boards in express ways.
- The Group also arranges the training and development program for the telemarketing seats to be able to support after sale service system.
- The Group expands areas to sell by increasing the number of sale teams with canvassing cars.
- The Group commenced the plan to invest in the advertising budget through on line (Facebook) and advertising media through the engagement with Mr. Maethanee Buranasiri (Mr. Nino) to be a Precentor of water purifier branded "SAFE" under a new campaign of "SAFE MAN".
- The Group developed the plan to invest new canvassing trucks to support the old and new direct sale teams for their safety and efficiency to canvass.



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- The Group continues to invest in product research and development for improving the cleanliness of water and contains minerals which are necessary for body.
- The Group continually improve product quality as well as design, and utilize technology for the convenient use by customers.
- The Group also launched the constructive plan to reduce the cost and administrative expenses by improving the production and operation process with modern and new technology.
- After having the consideration about the strength and weakness of sale via Modern Trade channel like HomePro, the Group made the decision to cease it and focus to sale via online channel instead.
- The Group and the Company has made the preliminary impact assessment of initially applying TFRS 9 –Financial instruments on the financial statements. The majority of the impact is result from expected credit losses in the subsidiary. The expected impact on decreasing retained earnings is approximately 2% for consolidated financial statements.
- At the Annual General Meeting of Shareholders held on 26 April 2019, the shareholders approved the payment of the final dividend for 2018 at the rate of Baht 0.08 per share, payable to shareholders entitled to receive dividends totaling Baht 43.97 Million and is scheduled for payment on 24 May 2019.
- At the Annual General Meeting of Shareholders held on 26 April 2019, the shareholders approved the decrease of registered capital of the Company from Baht 622,198,922 to Baht 549,682,133 by reduction of the registered capital of un-subscription shares amounting to 112,516,789 shares and approve to amend Clause 4 of the Memorandum of Association of the Company in accordance with the above details.
- At the Board of Directors’ meeting held on 22 July 2019, the Board agreed to approve the dissolve of Fedders Thai Co., Ltd. Which is subsidiary that the Company holding 59.99% of shares in view of cost saving after Fedders Thai Co., Ltd., have not distributed air conditioners branded “Fedders” anymore. On 30<sup>th</sup> September 2019, the Group cancelled the registration of Fedders Thai Co., Ltd.
- At the Board of Directors’ meeting held on 13 August 2019, the Board agreed to approve the payment of an interim dividend for 2019 at the rate of Baht 0.06 per share, totaling Baht 32.98 million and the dividend payment had been paid to the Shareholders since 11 September 2019.



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- The Group has already cancelled all the bank facilities that need to have Banks' guarantee, and go to new bank facilities without bank guarantee as **the clean loan basis** that will help the Company to diversify new banks to serve the Company's liquidity for the Company's Growth.

## Performance Overview for Y2019

### Analysis of operating results

#### Income Statement

##### Revenues

- **Revenues from sales of goods, hire purchase interest income including income from loan receivables of a subsidiary ("total revenues")** of the Group for Y2019 amounting to Baht 1,636.46 Million, an increase of Baht 60.96 Million or increased by 3.87 % compared to those of Y2018. The revenues consisted of revenue from sales of goods amounting to Baht 1,456.36 Million, an increase of Baht 77.86 Million or increased by 5.65%; hire purchase interest income including income from loan receivables amounting to Baht 179.89 Million, a decrease of Baht 16.51 Million, or decreased by 8.41%. An increase of sales of goods came from the efficient improvement of direct sales by increasing the number of direct sale teams with the valued information from new IT technology of GIS and Provincial Waterworks Authority to manage the areas to sell water purifiers and to monitor sale team efficiency. Whereas, a decrease of hire purchase interest income including income from loan receivables came from the impact of more stringent measures of credit approval policy and shorten the term of hire purchase contracts for new one in view of the impact of high household debts from slow recovery in domestic demand.
- **Other income** of the Group for Y2019 was Baht 40.32 Million, an increase of Baht 2.73 Million from Y2018 mainly caused by gain of used canvassing trucks sales according to a plan to manage canvassing trucks of direct sales, sales of plastic scrap and higher bad debt recovered from the operation process changed.

##### Expenses

- **Cost of sales** of the Group for Y2019 was Baht 409.12 Million, an increase of Baht 20.60 Million or 5.30% compared to Y2018, the proportion of cost of sales to total revenues from sales of goods and hire purchase interest income including income from loan receivables slightly increased from 24.66% in Y2018 to 25.00% in Y2019 caused by higher sale proportion of electrical home appliances with lower product margin than water purifiers together with the impact of booking cost of material supplies to produce water purifiers in

one-time expense. By the way, the plan to improve the production of water purifiers is under the process to modify the machine.

- **Selling expenses** of the Group for Y2019 were Baht 593.67 Million, an increase of Baht 56.49 Million or increased by 10.52%. The proportion of selling expenses to total revenues from sales of goods and hire purchase interest income including income from loan receivables was 36.28% which increased from Y2018 (Y2018: 34.10 %). An increase was due to higher advertising expenses via television and Facebook to have more brand advertisement of SAFE and PONSaBUY to the target customers. Even customers' demand increased, the Company could not afford to serve those demand in a short time. The Company still have to improve the operation process of Online to Offline system to be well managed and more efficient in order to be worthy with higher advertising expenses. However, the Group still improve the structure of sales and selling commission to be less complexity for calculation and more easy to manage.
- **Administrative expenses** of the Group for Y2019 were Baht 401.86 Million, an increase of Baht 14.57 Million or increased by 3.76%. The proportion of administrative expenses to total revenues from sales of goods and hire purchase interest income including income from loan receivables decreased from 24.58% of Y2018 to 24.56% of Y2019. The decreases were due to a significant decrease of collecting commission caused by lower amount of hire purchase receivables to collect and the changing of customers' payment from using credit team to collect to be direct payment by customers with lower cost as well as the Group's plan to reduce all the administrative expenses by reducing the redundant and unproductive administrative expenses and using the outsourcings to support the Group's operation such as transportation, customer services, print and delivery documents etc.
- **Doubtful accounts and bad debts** of the Group for Y2019 were Baht 134.20 Million that were decreased by Baht 34.32 Million or decreased by 20.37% compared with Y2018. A significant decrease came from the measurement to cope with bad debts - establishment of more prudent credit approval policy; shortening payment terms and increase stringency in credit approval processes to ensure quality of hire purchase receivables. The credit approval process was strictly monitored by the Company's Credit Department. In addition, according to the Group's policy, commissions will be recalled from sales staff on uncollectible hire purchase receivables. Such policy has been consistently reviewed on a regular basis.



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### Profits

- **Gross Profit** (calculated by deducting cost of sales from total revenues from sales of goods and hire purchase interest income including income from loan receivables) of the Group for Y2019 and Y2018 were Baht 1,227.33 Million and Baht 1,186.98 Million, or 75.00% and 75.34%, respectively. An increase of Baht 40.35 Million or increased by 3.40% was due to an increase of revenues from sales of goods by 5.65; whereas, hire purchase interest income was decreased by 8.41% as the above mentioned.
- **Net profit** of the Group for Y2019 was Baht 109.63 Million, increased of Baht 2.84 Million or increased by 2.66% (Y2018: net profit of Baht 106.79 Million). The net profit ratio of Y2019 slightly decreased from 6.78% of Y2018 to 6.70% resulting from the above mentioned rationale.

### Statement of Financial Position

#### Total assets

As at 31 December 2019, total assets of the Group were Baht 1,447.54 Million, increased by Baht 32.45 Million, or increased by 2.29% compared to 31 December 2018 mainly caused by an increase of accounts receivable from hire purchase and cash with the amount of Baht 74.54 Million and Baht 11.85 Million respectively; whereas, total net booking of land, building and equipment and inventories decreased by Baht 34.18 Million and Baht 9.26 Million respectively. An increase of accounts receivable from hire purchase came from higher new sales of water purifiers and electrical home appliances after having improved the credit approval and management. A decrease of land, building and equipment caused by a plan to manage the canvassing trucks for direct sales more efficiency as well as a well management of inventory control to be reduced at a proper level for sale.

From the comparison aging of hire purchase accounts receivable as of 31 December 2019 to those as of 31 December 2018, there were lower overdue hire purchase accounts of both water purifiers and electrical home appliances by considering the amount of hire purchase accounts overdue three months (NPL) of both water purifier and electrical home appliance reduced from 4.70% to 3.46% and from 13.26% to 8.89% respectively. The lower overdue hire purchase accounts of water purifiers came from more prudent salesforces after having issued the strict measurement for imprudent salesforce that have to take responsibilities with the loss by return the commission and send credit officers to collect and solve those overdue hire purchase accounts. The lower overdue



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electrical home appliance accounts came from collection improvement by hybrid of direct payment and sending credit officers to collect the overdue accounts for the customers who have less responsibilities to have direct payment on time, but if it cannot be collected, send credit officers to take the products back.

Details of the accounts receivable are shown below:

Water Purifiers

Accounts receivable from hire purchase accounts (Receivables less deferred hire-purchase interest and deferred output tax)

Unit : '000 Baht	Water Purifier							
	Balance of hire purchase				Allowance for doubtful account			
	31 Dec.'19		31 Dec.'18		31 Dec.'19		31 Dec.'18	
Current	420,650	71.68%	385,854	72.20%	10,641	2.5%	9,757	2.5%
Overdue 1 installment	102,138	17.40%	84,740	15.86%	6,128	6.0%	5,084	6.0%
Overdue 2 installments	29,087	4.96%	23,556	4.41%	8,726	30.0%	7,067	30.0%
Overdue 3 installments	14,674	2.50%	15,157	2.84%	7,337	50.0%	7,579	50.0%
Non-consecutive overdue exceeding 3 installm	10,590	1.80%	9,491	1.78%	5,295	50.0%	4,746	50.0%
Consecutive overdue exceeding 3 installments	9,713	1.66%	15,609	2.92%	9,713	100.0%	15,609	100.0%
<b>Total balance</b>	<b>586,852</b>	<b>100.00%</b>	<b>534,407</b>	<b>100.00%</b>	<b>47,840</b>	<b>8.2%</b>	<b>49,842</b>	<b>9.3%</b>
<b>Allowance for doubtful accounts/Total hire purchase receivables</b>					<b>8.15%</b>	<b>9.33%</b>		

\*Rate of allowance for doubtful accounts of 50 percent is for non-consecutive delinquency over 3 installments and 100 percent for consecutive delinquency over 3 installments.

Electrical appliances

Accounts receivable from hire purchase accounts (Receivables less deferred hire-purchase interest and deferred output tax)

Unit : '000 Baht	Electrical appliances							
	Balance of hire purchase				Allowance for doubtful account			
	31 Dec.'19		31 Dec.'18		31 Dec.'19		31 Dec.'18	
Current	118,640	76.56%	78,909	62.33%	591	1.0%	522	1.0%
Overdue 1 installment	10,951	7.07%	14,510	11.46%	120	2.0%	173	2.0%
Overdue 2 installments	6,938	4.48%	9,948	7.86%	359	10.0%	603	10.0%
Overdue 3 installments	4,660	3.01%	6,441	5.09%	473	20.0%	801	20.0%
Overdue 4 installments	3,942	2.54%	4,998	3.95%	641	30.0%	919	30.0%
Overdue 5 installments	3,246	2.09%	3,475	2.75%	761	40.0%	860	40.0%
Overdue 5 installments	2,196	1.42%	2,938	2.32%	687	50.0%	934	50.0%
Non-consecutive overdue exceeding 6 installr	4,220	2.72%	3,385	2.67%	1,391	50.0%	870	50.0%
Non-consecutive overdue exceeding 6 installr	169	0.11%	1,985	1.57%	43	100.0%	1,261	100.0%
<b>Total balance</b>	<b>154,962</b>	<b>100.00%</b>	<b>126,589</b>	<b>100.00%</b>	<b>5,066</b>	<b>3.3%</b>	<b>6,943</b>	<b>5.5%</b>
<b>Allowance for doubtful accounts/Total hire purchase receivables</b>					<b>3.27%</b>	<b>5.48%</b>		

\* Rate of allowance for doubtful accounts of 50 percent is for non-consecutive delinquency over 6 installments and 100 percent for consecutive delinquency over 6 installments.

\*\* Allowance for doubtful accounts for electric appliances receivables calculated based on receivables less deferred interest and output tax, and net from residual value of returned electric appliances which considered from usage time, condition and market price of second hand electric appliances. Subsequently, these returned units will be sold as second hand items.



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#### Total liabilities

As at 31 December 2019, total liabilities of the Group were Baht 211.14 Million, decreased by Baht 0.94 Million or decreased by 0.44 % from 31 December 2018. Liabilities that posed a huge decrease were short-term and long-term borrowings from financial institutions, as well as liabilities under financial lease agreements. Whereas, trade account payable and other payable increased from higher purchase caused by higher sales.

**Total borrowings from financial institutions**, promissory notes, of the Group as at 31 December 2019 were Nil due to the capable to manage the Group's liquidity from the efficient collection of hire purchase accounts including with the prudent investment under the Economic downturn and higher household debts.

#### Shareholders' equity

Shareholders' equity of the Group as at 31 December 2019 was Baht 1,236.39 Million (31 December 2018: Baht 1,203.01 Million), increased by Baht 33.39 Million or 2.78%.

Debt to equity ratio as at 31 December 2019 was 0.17 (31 December 2018: 0.18). Book value per share was Baht 2.25 (31 December 2018: Baht 2.19 per share) due to total net profit for Y2019 netting with the dividend payment for the Group's result of the first half year 2019 that was paid in September 2019.

Kindly be informed.

Yours truly,

(Mr. Ekarat Changyoo)

Chief Executive Officer