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Subject: Management Discussion and Analysis Quarter 1 Ending 31<sup>st</sup> March 2020

Attention: President  
The Stock Exchange of Thailand

The Meeting of the Board of Directors of KGI Securities (Thailand) Public Company Limited ("the Company") No. 3/2020, held on 7<sup>th</sup> May 2020, has approved the reviewed financial statements including the consolidated financial statements of the Company and its subsidiaries for the first quarter ended 31<sup>st</sup> March 2020.

The Company reported a consolidated loss (attributable to equity holders of the parent) of Baht (508) million and loss per share of Baht (0.25) for the first quarter of 2020, compared to a consolidated profit (attributable to equity holders of the parent) of Baht 310 million and earnings per share of Baht 0.16 for the first quarter of the previous year.

The Company would like to clarify the significant reasons for the consolidated loss for the first quarter of 2020 compared to the first quarter of the previous year, as follows:

### **1. Revenues**

The Company's revenues in the first quarter of 2020 were Baht (131) million, compared to the Company's revenue of Baht 911 million for the first quarter of the previous year. The significant revenue items are as follows:

#### **1.1 Brokerage fees**

The Company's brokerage fees in first quarter of 2020 were Baht 237 million, an increase of 43 percent compared to the first quarter of the previous year, mainly from an increase in SET and TFEX average daily trading volume.

#### **1.2 Fee and Service income**

The Company's fee and service income in first quarter of 2020 was Baht 199 million, an increase of 14 percent compared to the first quarter of the previous year, mainly from an increase in the Company's sales agent fees from the sale of investment units and underwriting fee income.

#### **1.3 Interest income**

The Company's interest income in first quarter of 2020 was Baht 52 million, a decrease of 32 percent compared to the first quarter of the previous year, mainly from a decrease in interest income from bond investment and interest income on margin loans.

#### **1.4 Gains (losses) and return on financial instruments**

The Company's losses and return on financial instruments in first quarter of 2020 were Baht (619) million, compared to gains and return on financial instruments of Baht 480 million for the first quarter of the previous year.

The Company's gains (losses) and return on financial instruments were derived from a variety of activities, including, derivative warrants (DWs), over-the-counter (OTC) derivatives, investments in debt and equity securities for the Company's own account, bond dealing, private repos and other investments.

The Company's DW business was significantly impacted by the extreme volatility of the Thai stock market during March 2020. The Company is a market leader in the issuing of DWs in Thailand with a market share of 35% to 40%, and as a result the Company's overall profitability was also significantly impacted. The Company hedges its DW exposure as part of its normal risk management using a delta-neutral hedging strategy. The Delta hedging strategy requires that the Company continuously adjusts its hedging position as the market moves up or down. If the market moves up, a DW issuer will buy SET50 futures or stocks, and if the market moves down, the DW issuer will sell SET50 Futures or stocks. The objective of this rebalancing is to hedge the DW exposure, and not to speculate on the direction of the market.



However, in March 2020 the Thai stock market experienced extremely high volatility which included triggering the SET circuit-breaker 3 times. Each large movement also triggered a massive change in the Delta hedge position within a very short period of time. These extreme rebalancing actions resulted in losses.

## **2. Expenses**

The Company's total expenses for the first quarter of 2020 were Baht 503 million, a decrease of 4 percent compared to the first quarter of the previous year. The majority of the Company's expenses came from employee benefits expenses, fee and service expenses, and interest expenses, as follows:

### **2.1 Employee benefits expenses**

The Company's employee benefits expenses for the first quarter of 2020 were Baht 248 million, a decrease of 13 percent compared to the first quarter of the previous year, mainly from a decrease in personnel expenses which are related to the decrease in the Company's performance.

### **2.2 Fee and service expenses**

The Company's fee and service expenses in first quarter of 2020 were Baht 130 million, an increase of 27 percent compared to the first quarter of the previous year, mainly from an increase in fees paid in respect of securities trading and futures trading.

### **2.3 Interest expenses**

The Company's interest expenses in first quarter of 2020 were Baht 21 million, a decrease of 35 percent compared to the first quarter of the previous year, mainly from a decrease in interest expenses of private repo business and interest expenses on bonds issued by the Company.

## **Derivative Warrant ("DW") Business**

The Company would like to provide additional information to shareholders and potential investors regarding the DW business. Derivative Warrants, and similar instruments, are popular investments traded on equity markets worldwide. KGI was the first securities company in Thailand to issue Derivative Warrants, with our first DW being launched in June 2009. Since then the number of DWs issued by the Company has grown steadily and in 2019 the Company issued more than 500 DWs, whilst Derivative Warrants have become a very popular investment tool for Thai investors. Other securities companies have followed KGI and launched their own DWs, however KGI has remained the market leader.

DW issuing has been a consistently profitable business for the Company every year since they were first launched in 2009, and has provided Thai investors with a valuable investment alternative. Despite the hedging losses in Q1 2020, due to the extreme market volatility described above, the Company remains confident in the long-term potential of the DW business. As market volatility declines we expect the DW business to return to normal.

Please be informed accordingly.

Yours Sincerely,

(Mr. Chih - Hung Lin)  
Chief Operating Officer

Company Secretary Office

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