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Ref: CSO. 025/2020

Date: 19th August 2020

Subject: Management discussion and analysis of financial results for the six months ending 30th June 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. 4/2020, held on 19th August 2020, has approved the audited financial statements, including the consolidated financial statements of the Company and its subsidiaries for the six-month period ended 30th June 2020.

The Company reported consolidated net profit (attributable to equity holders of the parent) of Baht 195 million for the second quarter of 2020, which was similar to the second quarter of the previous year, and net losses (attributable to equity holders of the parent) of Baht (313) million for the first six-month period of 2020, representing a decrease of 162 percent compared to the first six months of the previous year respectively.

The Company would like to clarify the change in profits (losses) for the second quarter of 2020 and first six-month period of 2020 compared to the same periods of the previous year, as follows:

The second quarter of 2020 Vs the second quarter of 2019

1. Revenues

The Company's revenue in the second quarter of 2020 was Baht 693 million, a decrease of 14 percent compared to the second quarter of the previous year. The significant revenue items are as follows:

1.1 Brokerage fees

The Company's brokerage fees in the second quarter of 2020 were Baht 224 million, an increase of 39 percent compared to the second 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 the second quarter of 2020 was Baht 181 million, a decrease of 6 percent compared to the second quarter of the previous year, mainly from a decrease in mutual fund management fees from funds managed by ONE Asset Management Limited (the Company's subsidiary).

1.3 Interest income

The Company's interest income in the second quarter of 2020 was Baht 46 million, a decrease of 40 percent compared to the second quarter of the previous year, mainly from a decrease in interest income on margin loans.

1.4 Gains and return on financial instruments

The Company's gains and return on financial instruments in the second quarter of 2020 were Baht 242 million, a decrease of 35 percent compared to the second quarter of the previous year, due to a decrease in the performance of the Company's wide range of investments. During the second quarter of 2020 the Thai stock market remained very volatile, however the volatility was less than the extreme levels seen in March.

The Company's gains and return on financial instruments were derived from a variety of products, 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.

2. Expenses

The Company's expenses in the second quarter of 2020 were Baht 449 million, a decrease of 20 percent compared to the second quarter of the previous year. The majority of the Company's expenses came from employee benefits expenses, fee and service expenses, and interest expense, as follows:

2.1 Employee benefits expenses

The Company's employee benefits expenses for second quarter of 2020 were Baht 214 million, a decrease of 28 percent compared to the second 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 the second quarter of 2020 were Baht 116 million, similar to the second quarter of the previous year.

2.3 Interest expense

The Company's interest expenses in second quarter of 2020 were Baht 21 million, a decrease of 45 percent compared to the second quarter of the previous year, mainly from a decrease in interest paid on bonds issued by the Company and interest paid for the private repo business.

The first six-month period of 2020 Vs the first six-month period of 2019

1. Revenues

The Company's total revenues in the first six-month period of 2020 were Baht 562 million, a decrease of 67 percent compared to the first six-month period of the previous year. The significant revenues are as follows:

1.1 Brokerage fees

The Company's brokerage fees in the first six-month period of 2020 were Baht 461 million, an increase of 41 percent compared to the first six-month period 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 the first six-month period of 2020 was Baht 379 million, an increase of 3 percent compared to the first six-month period of the previous year, mainly from an increase in front-end fees for funds managed by ONE Asset Management Limited (the Company's subsidiary) and in the Company's sales agent fees from the sale of investment units.

1.3 Interest income

The Company's interest income in the first six-month period of 2020 was Baht 98 million, a decrease of 36 percent compared to the first six-month period of the previous year, mainly from a decrease in interest income on margin loans and interest income from bond investment.

1.4 Gains (losses) and return on financial instruments

The Company's losses and return on financial instruments in the first six-month period of 2020 were Baht (377) million, compared to gains and return on financial instruments of Baht 852 million for the first six months 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 the period, especially 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 adjust its hedging position as the market moves up or down in order to hedge the DW exposure. As market volatility moved back towards more normal levels in May and June the Company's DW business also improved.

2. Expenses

The Company's expenses in the first six-month period of 2020 were Baht 951 million, a decrease of 12 percent compared to the first six-month period of the previous year. The majority of the Company's expenses came from employee benefits expenses, fee and service expenses, and interest expense, as follows:

2.1 Employee benefits expenses

The Company's employee benefits expenses in the first six-month period of 2020 were Baht 462 million, a decrease of 21 percent compared to the first six-month period 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 the first six-month period of 2020 were Baht 246 million, an increase of 13 percent compared to the first six-month period of the previous year, mainly from an increase in fees paid in respect of securities trading.

2.3 Interest expense

The Company's interest expenses in the first six-month period of 2020 were Baht 43 million, a decrease of 40 percent compared to the first six-month period of the previous year, mainly from a decrease in interest paid on bonds issued by the Company and interest paid of private repo business.

Please be informed accordingly.

Yours Sincerely,

(Mr. Chih-Hung Lin)
Chief Operating Officer

Company Secretary Office
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