

Nov 12, 2020

Subject Management Discussion and Analysis for the period of three months and the period of 1st half ended 30th September 2020

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 and the period of 1st half ended 30th September 2019 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For the period of three months ended 30 th Sept				For the period of 1st half ended 30 th Sept			
	July - Sept 2020	July - Sept 2019	Change	% Change	Apr - Sept 2020	Apr - Sept 2019	Change	% Change
Revenue from sales & service	518.91	745.69	-226.78	-30.4%	930.49	1,465.51	-535.02	-36.5%
Other income	3.28	4.68	-1.60	-34.2%	8.14	9.94	-1.80	-18.1%
Total revenue	522.19	750.37	-228.18	-30.4%	938.63	1,475.45	-536.82	-36.4%
Cost of goods sold & service	454.43	658.94	-204.51	-31.0%	837.56	1,297.29	-459.73	-35.4%
Selling expenses	12.87	17.89	-5.02	-28.1%	23.83	33.40	-9.57	-28.7%
Administrative expenses	28.15	30.03	-1.88	-6.3%	55.15	66.31	-11.16	-16.8%
Total expenses	495.45	706.86	-211.41	-29.9%	916.54	1,397.00	-480.46	-34.4%
Earning before interest and tax	26.74	43.51	-16.77	-38.5%	22.09	78.45	-56.36	-71.8%
Financial expenses	-0.43	-0.87	0.44	-50.6%	-1.09	-2.03	0.94	-46.3%
Share of income from investment in associate	0.30	0.55	-0.25	-45.5%	0.39	1.07	-0.68	-63.6%
Corporate Income tax expenses	-5.31	-8.35	3.04	-36.4%	-4.49	-14.93	10.44	-69.9%
Net profit for the period	21.30	34.84	-13.54	-38.9%	16.90	62.56	-45.66	-73.0%
Profit Sharing for non-controlling interest of a subsidiary company	-6.27	-12.24	5.97	-48.8%	-4.50	-22.43	17.93	-80.0%
Net profit for the company and its subsidiaries	15.03	22.60	-7.57	-33.5%	12.40	40.13	-27.73	-69.1%

1. Operating Performance

For the period of three months ended 30th Sept 2020, the net profits for the company and its subsidiaries was Baht 15.03 million or decreased by 7.57 million which was -33.5 percent, the results for the current three-month period was declined when comparing to the same period of the previous year. However, the Company and its subsidiaries were able to resume their net profit in the current quarter compared to the first quarter with net losses due to lockdown and the disruption of activities that occurred. Sales have not yet been able to adjust back to normal due to the novel coronavirus (COVID-19) outbreak, despite the lockdown in many countries around the world including Thailand. But the negative impact on domestic consumption, manufacturing and export sectors persisted in this quarter, despite improvement from the previous quarter. In Thailand, there are industries that are affected by upstream to downstream production chains such as electrical, electronics, auto spare parts and construction industries which are customer groups of the company and its subsidiaries. The impact therefore greatly affects sales both volume, as well as the sales prices and gross margins of various product groups, which have weakened due to higher unit production costs following the low demand volumes and more intensive competition among lower market demand. In terms of expenses in the current quarter, the company continues to control and reduce production costs, sales and administrative expenses in all areas for the most benefit and efficiency.

For the period of 1st half year ended 30th Sept 2019, the Company and its subsidiaries reported operating profit of Baht 22.09 million, a decrease of 71.8 percent and net profit of Baht 12.40 million or decreased by 69.1% while compared to the same period of last year which the net profit was Baht 40.13 million due to the epidemic situation from the first quarter to the present, and has a direct impact on the gross profit and net profit of the company. However, the Company and its subsidiaries have no obligation to set for additional employee benefits in the current year. While there is a one-time provision of approximately Baht 7.7 million in the first quarter of 2019 in order to comply with the revised labor law newly implemented in 2019.

1.1 Revenue

For the period of three months ended 30th Sept 2020, the Company and its subsidiaries had revenue from sales and service of Baht 518.91 million compared with Baht 745.69 million in the same period of the previous year, which decreased by 30.4 percent. This was due to the lower volume and lower average selling price of stainless steel, copper, aluminum, strip and sheet, which are the main product groups, has decreased in line with the level of production activity of the main industries that have not yet returned to Normal level before the epidemic

The sales of company and its subsidiaries mostly came from Copper, Aluminum and Stainless products.

For the period of 1st half of year ended 30th Sept 2020, the Company and its subsidiaries had revenue from sales and service of Baht 930.49 million compared with Baht 1,465.51 million in the same period of the previous year or decreased by 36.5 percent. The decrease in sales was the result of a six-month down in sales weight across all product categories due to the unusual economic situation in the current year.

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 and period of 1st half ended 30th Sept 2020, the Company and its subsidiaries had other income of Baht 3.28 million and 8.14 million baht respectively, which decreased by 34.2 percent and 18.1 percent from the same periods of previous year. The significant other income is income from scrap sales which were 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 raw material such cold rolled stainless steel sheet and coil and special grade stainless which the Company and its subsidiaries process. For the period of three months ended 30th Sept 2020, the Company and its subsidiaries had cost of goods sold of Baht 454.43 million, or stood at 87.02 percent of the total revenue, decrease in comparing with Baht 658.94 million or stood at 87.82 percent of total revenue of previous year. However, cost of good sold for the period of three months ended 30th Sept 2020 decreased by 31.0 percent, while the decrease in sales & services was 30.4 percent from the same period of previous year.

For the period of 1st half ended 30th Sept 2020, the Company and its subsidiaries had cost of goods sold of Baht 837.56 million, or stood at 89.23 percent of the total revenue in comparing with Baht 1,297.29 million, or stood at 87.93 percent of total revenue of previous year.

1.4 Selling expenses

Selling expenses consist of sale staff expenses, transportation expenses, commissions and promotion expenses. For the period of three months and period of 1st half ended 30th Sept 2020, the Company and its subsidiaries had selling expenses of Baht 12.87 million and 23.83 million, compared with selling expenses of Baht 17.89 million and 33.40 million in the same periods of the previous year, or decreased by 28.1 percent for three month period and decreased by 28.7 percent for the 1st half year respectively. The decrease of selling expense was mainly in area of logistic and marketing expenses.

For the period of three months and 1st half ended 30th Sept 2020, the selling expenses were 2.48 percent and 2.56 percent of total sales and service respectively, compared with 2.40 percent and 2.28 percent in the same periods of previous year.

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 and period of 1st half ended 30th Sept 2020, the Company and its subsidiaries had administrative expenses of Baht 28.15 million and 55.15 million, compared with administrative expenses of Baht 30.03 million and 66.31 million in the same period of the previous year. Administrative expenses decreased because the Company and its subsidiaries had reduced and controlled administrative expenses. In addition, there is no obligation to set aside a one-time additional provision for employee benefits in the current year while such provision was made in the same quarter 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 and 1st half year ended 30th Sept 2020, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.30 million and 0.39 million in consolidated income statements respectively.

1.7 Earning (loss) before interest and tax and Net Profit (loss)

For the period of three months and period of 1st half ended 30th Sept 2020, the Company and its subsidiaries had earning before interest and tax of Baht 26.74 million and Baht 22.09 million respectively. After deducting the financial costs of Baht -0.43 million and Baht -1.09 million, adding the share of income from investment of Baht 0.30 million and Baht 0.39 million, deducting the corporate income tax of Baht -5.31 million and Baht -4.49 million, the net profit of the Company and its subsidiaries were at Baht 21.30 million and Baht 16.90 million. When comparing to the same periods of the previous year, the earning before interest and tax and net profit for the period of the three months were both decreased by -38.5 percent and by -38.9 percent respectively, whereas the earning before interest and tax and net profit for the period of 1st half were both decreased by -71.8 percent and -73.0 percent respectively.

In addition to the period of three month and period of 1st half ended 30th Sept 2020, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 6.27 million and 4.50 million respectively. The lower profit sharing was due to the lower in net profit of a subsidiary. As a result, the net profit for the company and its subsidiary were amount of Baht 15.03 million and 12.40 million respectively.

1.8 Corporate income tax

For the period of three month and 1st half of year ended 30th Sept 2020, the Company and its subsidiaries recognized corporate tax expenses by Baht 5.31 million and 4.49 million, decrease from the same period of previous year of Baht 8.35 million and 14.93 million as the result of lower operating profit.

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. The Company and its subsidiaries recognized profit sharing to minority shareholders according to the percentage of shareholding of net profit in subsidiary through the period of its holding which was amount by Baht 6.27 million and 4.50 million for the period of three month and 1st half year ended 30th Sept 2020.

1.10 Profitability

For the period of three months ended 30th Sept 2020, the Company and its subsidiaries had gross profit margin of 12.43 percent, compared with gross profit margin of 11.63 percent in the same period of the previous year. This was mainly due to an improvement in sales of exhaust pipes with its high gross margins while overall sales are still declining.

For the period of 1st half ended 30th Sept 2020, the Company and its subsidiaries had gross profit margin of 9.99 percent compared with gross profit margin of 11.48 percent in the same period the previous year. The lower gross margins were driven by a sharp declining in sales of exhaust pipes in the first quarter due to the suspension of production lines and lockdown of activities in the first quarter.

(Unit: Baht million)

Consolidated balance sheets	As at 30th Sept 2020		As at 31st Mar 2020	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	270.16	13.77%	211.33	9.98%
Financial Assets (Short-term investment)	83.70	4.27%	107.03	5.05%
Account receivable, trade and others	458.26	23.36%	542.31	25.60%
Inventories	493.23	25.14%	588.75	27.79%
Other current assets	3.84	0.19%	4.04	0.19%
Total current assets	1,309.19	66.73%	1,453.46	68.61%
Non-current assets				
Restricted bank deposits	46.18	2.35%	46.18	2.18%
Investment in associate	12.02	0.61%	11.63	0.55%
Non-Current Financial Assets (Long-term investment)	3.66	0.19%	3.46	0.16%
Property, plant and equipment	565.85	28.84%	581.77	27.46%
Intangible assets	3.48	0.18%	1.74	0.08%
Deferred tax assets	17.77	0.90%	16.90	0.80%
Other non-current assets	3.88	0.20%	3.40	0.16%
Total non-current assets	652.83	33.27%	665.08	31.39%
TOTAL ASSETS	1,962.02	100.00%	2,118.54	100.00%
LIABILITIES				
Current liabilities				
Short term loans from banks	26.73	1.36%	55.72	2.63%
Account payables, trade and others	300.68	15.33%	368.07	17.38%
Long term loan due within one year	4.50	0.23%	-	-
Lease payable due within one year	3.21	0.16%	-	-
Income tax payable	5.01	0.25%	6.64	0.31%
Other current liabilities	5.63	0.29%	9.76	0.46%
Total current liabilities	345.76	17.62%	440.19	20.78%
Non-current liabilities				
Provision for long-term employee benefits	45.24	2.31%	43.22	2.04%
Long term loan from banks	3.50	0.18%	0.00	0.00%
Lease payable	3.03	0.15%	0.00	0.00%
Other non-current liabilities	0.01	0.00%	0.00	0.00%
Total non-current liabilities	51.78	2.64%	43.22	2.04%
TOTAL LIABILITIES	397.54	20.26%	483.41	22.82%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	19.52%	383.00	18.08%
Premium on stock	519.67	26.49%	519.67	24.53%
Retained earnings				
Legal reserve	75.60	3.85%	75.25	3.55%
Un-appropriated	411.51	20.98%	439.01	20.72%
Non-controlling interest of the subsidiary	174.70	8.90%	218.20	10.30%
Total shareholders' equity	1,564.48	79.74%	1,635.13	77.18%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,962.02	100.00%	2,118.54	100.00%

2. Financial Status

2.1 Assets

As for the assets value as at and 30th September 2020 and 31st March 2020, the company and subsidiaries had total assets of 1,962.02 million baht and 2,118.54 million baht respectively, with short term investments, trade accounts receivable and inventories decreased due to sales and production which contracted considerably. The decrease in overall sales of the company and subsidiaries results in a decrease in the outstanding receivables and inventories. The Company and subsidiaries are principally engaged in the stainless steel coil processing, which consists of procurement, processing, production and distribution of stainless steel products, metal and non-ferrous metals. As such, assets will be in cash, inventories, trade accounts receivable and property, plant and equipment, with details as follows:

- 2.1.1 Inventories: As at and 30th September 2020 and 31st March 2020 the Company and its subsidiaries had net inventories of Baht 493.23 million (or 25.14 percent of total assets) and Baht 588.75 million (or 27.79 percent of total assets) respectively. The decrease in inventories were mainly due to reduced overall raw material procurement and production in the meantime.
- 2.1.2 Trade account receivables – other parties: As at and 30th September 2020 and 31st March 2020, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 458.26 million (or 23.36 percent of total assets) and Baht 542.31 million (or 25.60 percent of total assets) respectively. Trade receivables decreased in following to the lower sales.
- 2.1.3 Financial Assets (Short-term investment): As at and 30th September 2020 and 31st March 2020 the Company and its subsidiaries had short term investment of Baht 83.70 million (or 4.27 percent of total assets) and Baht 107.03 million (or 5.05 percent of total assets) respectively. The higher investment value came from the investment in unit value of mutual fund due to the excessive cash balance of a subsidiary company.
- 2.1.4 Land, plant and equipment - Land and improvements, building, machinery, office equipment, vehicles, right of use and work on progress of construction: As at and 30th September 2020 and 31st March 2020, the Company and its subsidiaries had Land, plant and equipment – net of Baht 565.85 million (or 28.84 percent of total assets) and Baht 581.77 million (or 27.46 percent of total assets) respectively.
- 2.1.5 Restricted bank deposit: As at and 30th September 2020 and 31st March 2020, the Company and its subsidiaries had net value of Baht 46.18 million (or 2.35 percent of total assets and 2.18 percent of total assets) respectively. The restricted fix deposit by a subsidiary was used as guarantee for loans from financial institution.
- 2.1.6 Deferred tax assets: As at and 30th September 2020 and 31st March 2020, the Company and its subsidiaries had net value of Baht 17.77 million and Baht 16.90 million respectively (0.90 percent and 0.80 percent of total assets respectively).

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as of 30th September 2020 and 31st March 2020 were Baht 397.54 million and Baht 483.41 million respectively, with current liabilities decreased as raw materials procurement decreased during this time. However, the company has an increase in long-term liabilities because a subsidiary company has long-term loans from the bank in the amount of 3.50 million baht and the recognition of long-term lease payable in the amount of 3.03 million baht.

2.3 Shareholders' equity

As of 30th September 2020, shareholders equity from the consolidated financial statements was Baht 1,564.48 million, decreased from shareholders' equity as at 31st March 2020 in the amount of 1,635.13 million baht or decrease by 70.65 million baht following the accounting policy adjustments under new applied financial & accounting standards in 2020 by 1.25 Million, total comprehensive profit for the period of 16.90 Million and dividends paid-out by 86.30 million baht. The equity of the company and the minority shareholders of the subsidiaries have outstanding value of 1,389.78 and 174.70 million baht respectively.

Debt to Equity ratio as at and 30th September 2020 and 31st March 2020 were 0.20 and 0.30 times respectively. The lower D/E ratio was due to smaller current liabilities as a result of smaller size of business transactions.

(Unit: Baht million)

Consolidated cash flows statement	As at 30th September 2020	As at 30th September 2019
Net cash from (used in) operating activities	148.51	125.13
Net cash used in investing activities	19.23	-20.31
Net cash from (used in) financing activities	-108.85	-128.54
Effect of exchange rate to cash and cash equivalent	-0.05	-0.03
Net increase (decrease) in cash	58.84	-23.75

3. Cash flows

For the 1st half year ended 30th September 2020 and 2019, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 148.51 million, consisting of baht 35.85 million positively from operating performance and net positive from smaller size of working capital of Baht 112.66 million. The smaller business in 1st half year ended generated net positive cash flow in working capital from operation.

Net cash flow from investing activities was amount to 19.23 million baht, mostly from net positive in short term investment by 23.50 million baht and no major investment during the period.

The financing part was net Baht -108.85 million by settlement of short term loan -28.98 million and payment of dividend by Baht -86.30 million while there was long term loan from bank of a subsidiary by Baht 8.00 million.

In total, net cash for the period was increased by Baht 58.84 million.

Sincerely yours,

Signed: Mr. Vittawat Akarapongpisak
(Mr. Vittawat Akarapongpisak)
Deputy Managing Director