

TSR.IR.025/2020

16 November 2020

Subject: Management Discussion & Analysis for Q3-Y2020 of Thiensurat Group.

To: President
The Stock Exchange of Thailand

For the third quarter in Y2020, the Group had a profit of Baht 40.61 Million which higher than the net profit of the same quarter in Y2019 that was equal to Baht 36.13 Million by 15.59%, but if it was compared to a profit for the second quarter in Y2020 which equal to Baht 46.92 Million, it was decreased by 13.45% caused by revenue from sales of goods, interest income from hire purchase contracts and loans, and income from loan receivables totally increased by 10.84% compared with the same quarter in Y2019, but less than the second quarter in Y2020 by 8.94% due to keeping the number of direct sale teams in the third quarter in Y2020 with the consideration of rainy season and lower sale of electrical home appliances. As a result, the Group's Earning per Share (EPS) for this quarter was Baht 0.075 per share compared to Baht 0.064 per Share for the same quarter of Y2019 or increased by 17.19%.

During the third quarter 2020, 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.
- The Group also keep to arrange the training and development program for sale & credit people and mechanic to serve the customers after sale.
- The Group continues to invest in product research and development for improving the cleanliness of water and contains minerals which are necessary for body and to 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 selling & administrative expenses by improving the production and operation process with modern and new technology.
- In Y2020, the Group and the Company has initially applied TFRS 9 –Financial instruments on the financial statements and TFRS 16- Leases. TFRS 9 was adopted by adjusting the cumulative effects to retained earnings on 1 January 2020. Therefore, the Group will not apply the requirements of these TFRS to comparative information. The adoption of TFRS 9 caused a reduction of retained earnings equal to Baht 6.82 million with the net impairment losses on financial assets with related tax for consolidated financial statements.
- With the serious impact of the outbreak of the 2019 coronavirus (COVID-19) in Thailand, after due consideration, the Board of Directors resolved the 2020 Annual General Meeting of Shareholders, previously scheduled on 22 April 2020, was postponed, but interim dividend payment from the Company's profit as of 31 December 2019 was paid at the ratio of Baht 0.08 per share totaling Baht 43.97 million on 15 May 2020, the 2020 Annual General Meeting of Shareholders, has been arranged on 21 July 2020.
- At the Board of Directors' meeting held on 13 August 2020, the Board agreed to approve the payment of an interim dividend for 2020 at the rate of Baht 0.085 per share, totaling approximately Baht 46.51 million and is scheduled for payment in 11 September 2020.
- According to the Board of Directors' Meeting No. 3/2020 convened on 30 March 2020 approved the Share Repurchase Program (Treasury Stock) for financial management purpose in the

amount not exceeding Baht 10 million. The number of shares to be repurchased 10 million shares (at par value of Baht 1.00 each) or equal to 1.82% of the total of paid-up capital. The repurchase period will be started from 14 April 2020 to 14 October 2020. On 30 June 2020, the Company has repurchased the shares under the program until the due-date of the program of 2,697,900 shares at a total cost of Baht 5.61 Million is presented as a separate category within equity and recognized as a deduction from equity in the consolidated financial statements with an equivalent amount had been appropriated from retained earnings to treasury shares reserve.

- According to the Board of Directors' Meeting of Thiensurat Public Company Limited ("the Company") No.5/2020 held on May 12th, 2020, The Board of Directors has resolution that The Company has made an investment in the ratio of 54.00% by incorporating a new subsidiary company named Alpine Water Company Limited that has been registered on May 26th, 2020 with total one million shares with par value Baht 10.00 per share and the Shareholders had been paid up capital of 70% of share registered. Alpine Water Company Ltd. has business about trading, rental, and service the set of ice maker machine composed of ice maker machine and water purifier to support and to build the revenue growth in the future with making cleaned ice for healthy through the Company's water purifier with after sale service to change the filters on time as the system that is different from the other competitors in the market of ice making machine. This differentiate will help the Company to build the huge return to the shareholders in the long run.
- The Group proudly received the trust from PTTOR to place their orders for the ice maker machine with the value amounting Baht 22 Million for their café shops named AMAZON.
- After incorporating with Alpine Water Company Limited, the Group joined in the Thailand Coffee Fest 2020 to launch another new business to distribute water purifiers in many famous brands made from Japan, Korea, China and Europe through the new company website named DrinkCo in order to add new choice for customers to select water purifier as their wishes.

Performance Overview for the 3rd quarter of Y2020

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 the 3rd quarter of Y2020 amounting to Baht 484.25 Million, an increase of Baht 47.34 Million or 10.84 % compared to those of the same quarter in Y2019. The revenues consisted of revenue from sales of goods amounting to Baht 424.57 Million, an increase of Baht 32.25 Million or 8.22% and hire purchase interest income including income from loan receivables amounting to Baht 59.10 Million, an increase of Baht 14.56 Million, or increased by 32.69%. An increase of total revenues were due to 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 so that the number of hire purchase accounts increased and hire purchase interest income also increased under the situation of the outbreak of the 2019 coronavirus (COVID-19).
- **Other income** of the Group for the 3rd quarter of Y2020 was Baht 15.43 Million, a significant increase of Baht 7.08 Million from the same period of Y2019 was caused by gain from sales of canvassed cars that had been used for a certain years as the Company's plan to save car maintenance cost from purchasing to have more rental canvassed cars and higher bad debt recovery.

- **Expenses**

- **Cost of sales** of the Group for the 3rd quarter of Y2020 was Baht 104.46 Million, a decrease of Baht 8.00 Million or 7.12% compared to the same period of Y2019, the percentage of cost of sales to total revenues from sales of goods and hire purchase interest income including income from loan receivables decreased from 25.7% in the 3rd quarter of Y2019 to 21.57% in the 3rd quarter of Y2020 caused by higher sale proportion of water purifiers with higher product margin than electrical home appliances. The company still keep on improving and developing the production process.
- **Selling expenses** of the Group for the 3rd quarter of Y2020 were Baht 178.03 Million, an increase of Baht 25.23 Million or 16.51% compared to the same quarter of last year. The percentage of selling expenses to total revenues from sales of goods and hire purchase interest income including income from loan receivables was 36.76% which increased from the 3rd quarter of Y2019 (the 3rd quarter of Y2019: 34.97%). A significant increase was caused by the expansion of new direct sale teams that need the time to learn how to have efficient sales like the existing direct sale teams including with the impact of expenses reclassification according to the adoption of TFRS 16 for the rental of canvassed cars and shops.
- **Administrative expenses** of the Group for the 3rd quarter of Y2020 were Baht 114.22 Million, an increase of Baht 7.33 Million or 6.86%. The percentage of administrative expenses to total revenues from sales of goods and hire purchase interest income including income from loan receivables decreased from 24.47% of the 3rd quarter of Y2019 to 23.59% of the 3rd quarter of Y2020. An increase in the amount was due to higher donation expenses for returned water purifiers from sales returned to offset with the bad debts from the overdue hire purchase accounts be written off, higher training and developing expenses with higher consulting fee together with higher provision of warranty expenses, employee expenses like bonus and salary for a significant increase of sale. Whereas the Group still keep the 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 the 3rd quarter of Y2020 were Baht 54.00 Million that were increased by Baht 24.63 Million or 83.88% compared with the same quarter of last year. An increase was due to the impact of TFRS 9 that caused to higher provision of doubtful accounts with the expected credit loss of the overdue hire purchase receivables even the percentage of overdue 3 months of hire purchase receivables (NPL) be reduced from 5.66% to 4.23% Under the situation of COVID-19, the measurements to cope with bad debts establishment of more prudent credit approval policy; shortening payment terms and the Group's policy to recall commission from sales staff on uncollectible hire purchase receivables have been consistently reviewed on a regular basis to increase stringency in credit approval processes to ensure quality of hire purchase receivables. The measurement to manage the overdue 3 months hire purchase accounts by reverting the products from the customers to be refurbished for sales as second hand products or donation caused a huge of provision for loss on revert as shown in the same line of bad debts and bad debt allowances

- **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 the 3rd quarter of Y2020 and Y2019 were Baht 379.79 Million and Baht 324.44 Million, or 78.43% and

74.26%, respectively. An increase of Baht 55.35 Million or 17.06% was due to higher product sale, higher hire purchase interest income and higher income from loan receivables by 10.84% and a significant reduction of cost of sales of goods by 7.12% from higher sale proportion of water purifiers with higher product margin than electrical home appliances

- **Net profit** of the Group for the 3rd quarter of Y2020 was Baht 40.61 Million, increased of Baht 5.48 Million or 15.59 % (the 3rd quarter of Y2019: net profit of Baht 35.13 Million). The net profit ratio of the 3rd quarter of Y2020 increased from 8.04% of the 3rd quarter of Y2019 to 8.39% resulting from the above mentioned rationale.

Statement of Financial Position

Total assets

As at 30 September 2020, total assets of the Group were Baht 1,664.92 Million, increased by Baht 217.38 Million, or 15.02% compared to 31 December 2019 caused by an impact of TFRS 16 adoption that have to book the additional value of **Right Of Use (ROU)** of other assets leasing contracts such as building, vehicles etc., amounting approximately Baht 90.08 million including with an increase of accounts receivable from hire purchase by Baht 56.46 Million caused by higher number of new hire purchase accounts of both water purifiers and electrical appliances, an increase of inventory by Baht 51.59 Million caused by higher order of products for sale to serve higher sales, an increase of cash and cash equivalents by Baht 11.09 Million caused by more collection from hire purchase accounts and higher borrowings, an increase of loan receivables by Baht 9.20 Million, an increase of trade accounts and other receivable by Baht 6.97 Million and an increase of other assets by Baht 18.79 Million; whereas, property, plant and equipment decreased by Baht 27.02 Million caused by higher depreciation and sales of canvassed cars that have been used for the certain years.

From the comparison aging of hire purchase accounts receivable as of 30 September 2020 to those as of 31 December 2019, there were higher overdue hire purchase accounts of water purifiers, but lower overdue hire purchase accounts of electrical home appliances by considering the amount of hire purchase accounts overdue three months (NPL) of water purifier increased from 3.46% as 31 December 2019 to 3.99% as 30 September 2020 caused by the impact of COVID-19, but electrical home appliance reduced from 8.89% to 5.16 %- with 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. Due to the collection of electrical home appliance accounts came from direct payment, hybrid of direct payment and sending credit officers to collect the overdue accounts, but if it cannot be collected, send credit officers to take the products back have been implemented.

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			
	30-Sep-20		31-Dec-19		30-Sep-20		31-Dec-19	
Staging								
Stage 1 (not over 1 installment)	566,166	88.44%	522,788	89.08%	14,205	2.51%	16,769	3.21%
Stage 2 (not over 3 installment)	48,524	7.58%	43,761	7.46%	18,491	38.11%	16,063	36.71%
Stage 3 (Over 3 installment)	25,514	3.99%	20,303	3.46%	21,524	84.36%	15,008	73.92%
Total amount	640,204	100.00%	586,852	100.00%	54,220	8.47%	47,840	8.15%
% of Allowance for doubtful account per total hire purchase receivable					8.47%		8.15%	

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			
	30-Sep-20		31-Dec-19		30-Sep-20		31-Dec-19	
Staging								
Stage 1 (not over 1 installment)	150,160	89.50%	129,591	83.63%	3,216	2.14%	711	0.55%
Stage 2 (not over 3 installment)	8,947	5.33%	11,598	7.48%	1,493	16.69%	832	7.17%
Stage 3 (Over 3 installment)	8,661	5.16%	13,773	8.89%	3,674	42.42%	3,523	25.58%
Total amount	167,768	100.00%	154,962	100.00%	8,383	5.00%	5,066	3.27%
% of Allowance for doubtful account per total hire purchase receivable					5.00%		3.27%	

Total liabilities

As at 30 September 2020, total liabilities of the Group were Baht 421.92 Million, increased by Baht 210.78 Million or 99.83 % from 31 December 2019. Liabilities that posed a huge increase were due to an increase of short-term loan from financial institutions by Baht 60 Million that was used for the growth of hire purchase accounts and higher inventories for sales including with the impact of TFRS 16 adoption that have to book additional lease liabilities of other assets leasing contracts such as of building, vehicles etc., amounting approximately Baht 95.93 Million, as well as an increase of trade and other payables by Baht 65.26 Million in relation with sale increased netting with a reduction of income tax payable by Baht 11.72 Million.

Total borrowings from financial institutions, promissory notes, of the Group as at 30 September 2020 were Baht 60.00 million, compared to Nil as at 31 December 2019. The Company borrowed this money to support the expansion of hire purchase accounts and inventory for sale growth.

Shareholders' equity

Shareholders' equity of the Group as at 30 September 2020 was Baht 1,243.00 Million (31 December 2019: Baht 1,236.39 Million), increased by Baht 6.61 Million or 0.53%. Debt to equity ratio as at 30 September 2020 was 0.34 (31 December 2019: 0.17). Book value per share was Baht 2.26 (31 December 2019: Baht 2.25 per share) due to the net profit from operation for nine months of Y 2020 netting with the expected credit loss of the subsidiaries caused by an impact of TFRS 9 and dividend payment for the operation result in the second half year of Y2019 paid on 22 May 2020 and dividend payment for the operation result in the first half year of Y2020 paid in September 2020.

Kindly be informed.

Yours truly,



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Chief Executive Officer