

CHOW.247/ 2022

13 May 2022

Subject : Management's Discussion and Analysis for the three-month period ended 31 March 2022

Attention : Committee and Manager, The Stock Exchange of Thailand

Refer to : The Regulation of the Stock Exchange of Thailand in regards with the preparation and submission of the financial Statements and reports on financial condition and results of operations of the Company Act 2001

Chow Steel Industries Public Company Limited ("the Company") would like to declare its operating results for the three-month period ended 31 March 2022 and 2021 and Statement of Financial Position as at 31 March 2022 compare to 31 December 2021. The analysis can be explained in the following topics;

1. Management Discussion & Analysis
2. Company performance analysis
3. Consolidated statement of financial position analysis
4. Consolidated statement of cash flows analysis

1. Management Discussion & Analysis

Chow Steel Industries Public Company Limited and its subsidiaries (“the Group”) are principally engaged in the manufacture of steel billets and the sale of electricity, both domestically and overseas, such as Japan and Australia. In 2022, the Group will increasingly seek new opportunities in various sectors to achieve sustainable growth and synergy within the group.

In March 2022, the Energy Business Unit successfully transferred 4 solar power plants, with a total capacity of 56.9 megawatt, to the buyer in accordance with the agreement reached in Q4 2020. As a result, the Group recognized a gain on sale of investments in subsidiaries and solar power plants of Baht 1,423.46 million in the current period. The Group’s total debt decreased significantly by Baht 6,401.74 million, resulting in a decrease in financing costs. In 2022, most operators will be affected by the adjustment of the electricity tariff “ft”, which will affect the higher production of operators of goods and services. The company expects that there will be a greater demand for the installation of solar power system by operators in Thailand due to cost of electricity, which is an important cost factor in the production process of goods and services. The Group has expertise and experience in developing large-scale solar power plants in oversea and smaller projects in Thailand. The Group therefore intends to expand its customer base in Thailand for sustainable growth of the Group.

Steel Business Unit has restarted the production line to meet customer orders in March 2022, and the orders will continue to be placed with the Group in April and May 2022. Demanding for steel products will continue to increase from 2021 due to promotion of infrastructure construction by government and partially recover of the export sector. In addition, China is also paying stricter attention to the environmental concerns of steel manufacturers. Therefore, the volume of steel exports from China should decrease. This is the opportunity for Thai manufacturers to compete with the imported steel from overseas.

The operating result for Q1 2022, the Group presented a net profit 1,205 million Baht, which mainly came from the profit from sale of investment subsidiaries that owned 4 solar power plants. The disposal of the group of subsidiaries and solar power plants is in line with the objective, policy and strategy of operating the solar energy business through subsidiaries and maximizing the profit of the Group. As a result, the operating performance turned into a profit in current period. The financial ratios have also improved significantly, which will be discussed in the next section.

2. The Group Performance Analysis

Significant financial information (Unit: mBaht)	1Q 2022			1Q 2021			Changes	
	Steel Business	Energy Business	Total	Steel Business	Energy Business	Total	Mb	%
Revenue from sale and services	186.65	123.91	310.56	10.55	181.01	191.56	119.00	62.1%
Gain on sale of investment in subsidiaries and power plants	-	1,423.46	1,423.46	-	-	-	1,423.46	100.0%
Other income	0.80	0.32	1.12	4.10	2.63	6.73	(5.61)	-83.4%
Gain on foreign exchange rate, net	0.26	52.28	52.54	0.03	29.62	29.65	22.89	77.2%
Total revenue	187.71	1,599.97	1,787.68	14.68	213.26	227.94	1,559.74	684.3%
Cost of sale and services	184.46	101.25	285.71	14.23	135.31	149.54	136.17	91.1%
Selling & administrative expenses	10.44	216.24	226.68	11.02	30.58	41.60	185.08	444.9%
Total expenses	194.90	317.49	512.39	25.25	165.89	191.14	321.25	168.1%
Loss sharing from investment in Joint Ventures	-	0.21	0.21	-	-	-	0.21	100.0%
Finance cost	24.72	52.37	77.09	23.67	69.52	93.19	(16.10)	-17.3%
Income expenses	1.79	(9.15)	(7.36)	2.26	3.02	5.28	(12.64)	-239.4%
Net profit (loss) for the periods	(33.70)	1,239.05	1,205.35	(36.50)	(25.17)	(61.67)	1,267.02	-2054.5%
EBITDA	(1.28)	1,297.71	1,296.43	(8.87)	109.91	101.04	1,195.39	1183%
Earnings (losses) per share (THB per share)			1.31			(0.08)		

Revenue from sale and services

In current period, total revenue was Baht 310.56 million, increasing 119.0 million Baht or equivalent to 62.1% YoY. The increasing can analyzed separate by type of business as follow:

Steel business: Steel business: the Group restarted the production line in March 2022 to meet customer orders. This results in additional service revenue from OEM service and revenue from sales in the current period. (1Q 2021: no sales revenue and no customer order).

Energy Business: Energy business: the decrease of Baht 35.9 million in revenue from sales and service compared to the previous year was mainly due to the sale of electricity in Japan. In the current period, the Group sold of 4 power plants to the buyer on March 9, 2022. As a result, in the current quarter, the Group partially recognized revenue from the sale (the revenue is recognized until the date of transfer of ownership), while in 1Q2021, the Group fully recognized the revenue from the generation of 8 solar power plants in Japan.

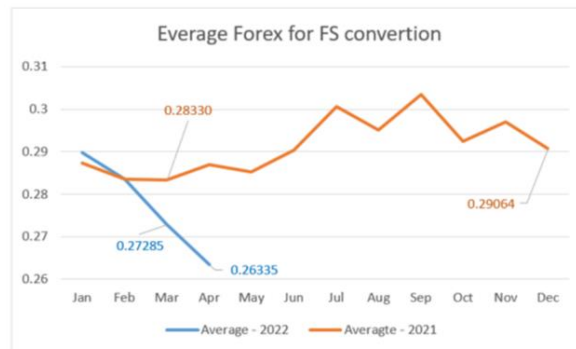
EBITDA margin: in 1Q2022, the Group achieved an EBITDA margin total of Baht 1,296.43 million, an increase of Baht 1,195.39 million year-on-year. This was due to the sale of 4 solar power plants in Japan, from which the Group realized a gain of Baht 1,423.46 million. EBITDA for the steel business also improved from Q1 2021, directly related to the opening of the production line in line with customer order.

Gain on sale investments and fixed assets:

The Group recognized gains on the sale of investments in 4 subsidiaries in Japan (Asset Group A) in the current period. As a result, the Group recognized gain on this transaction amounting to Baht 1,423.46 million.

Gain on exchange rate

There were exchange gains totaling Baht 52.24 million, mainly due to a long-term loan from a financial institution granted in JPY currency by Energy Business. According to the accounting standard, it must be converted into THB currency to prepare the financial statements. As of December 31, 2021 and March 31, 2022, the exchange rate was 0.29064 and 0.27285 THB/Japanese Yen, respectively. The appreciation of THB currency will reduce the loans payable accordingly.



Cost of sale and services: An increasing of Baht 113.17 million YoY due to additional cost of sale of steel business total of Baht 133 million Baht (1Q 2021: nil).

Administrative expenses: total administrative expenses increased 185.6 million Baht YoY which mainly due to special transaction which directly related to sale of 4 solar power plants transactions e.g. success fee charge by financial advisor total of Baht 100.72 million and other direct admin expenses related closing sale transaction e.g. legal & professional fee and etc.

3 Analysis of Consolidated Statement of Financial Position

Assets

Unit : million Baht

ASSETS	31-3.31.-22	% common size	31-3.31.-21	% common size	Changes	%
Assets						
Cash and cash equivalents and bank deposits pledged as collateral	1,623.25	32.0%	817.43	8.3%	805.81	98.6%
Trade and other receivables	821.89	16.2%	425.42	4.3%	396.47	93.2%
Inventories	97.93	1.9%	98.13	1.0%	(0.20)	-0.2%
Receivables from the Revenue Department	133.98	2.6%	119.57	1.2%	14.42	12.1%
Other current assets	92.44	1.8%	85.04	0.9%	7.40	8.7%
Assets held for sale	251.93	5.0%	6,223.04	62.9%	(5,971.10)	-96.0%
Property, plant, equipment and intangible assets	1,874.45	37.0%	1,956.97	19.8%	(82.52)	-4.2%
Other non-current assets	173.50	3.4%	173.40	1.8%	0.10	0.1%
Total assets	5,069.37	100.0%	9,898.99	100.0%	(4,829.63)	-48.8%

As at March 31, 2022, the Company reported total assets amounted to Baht 5,069.37 million, decreasing by 4,829.63 million baht or 48.8% from prior year. The decreasing can be summarised as follow:

Assets classified as held for sales: decreased by 5,971.1 million baht which are

Energy business:

- On March 2022, the Group successfully transferred 4 solar power plants with total capacity of 56.9 megawatts, named Iwaki, Aormori, Hamada 1 and Hamada 2, to non-related buyer. As a result, Assets classified as held for sale significant decreased.
- The remaining balance of assets classified as held for sales were cost of solar power plants under construction which management has plan to sale.

Cash and cash equivalent and bank deposit pledged as collateral : increased by 805.81 million baht due to

Energy business: increased from cash received from sale of 4 solar power plants in Japan during the period.

Trade and other receivable: increased by Baht 396.47 million which mainly came from receivable related to OEM and sale inventory of steel business and receivable from sale of 4 subsidiaries in Japan according to the agreement.

Liabilities and Shareholders' Equity

Unit : million Baht

LIABILITIES AND SHAREHOLDERS' EQUITY	31-Mar.-22	% common size	31-Dec.-21	% common size	Changes	%
Liabilities and Equity						
Bank overdrafts and short-term loans from financial institutions and unrelated party	778.90	15.4%	536.85	5.4%	242.06	45.1%
Trade and other payables	625.81	12.3%	294.86	3.0%	330.95	112.2%
Loan from financial institutions and un-related parties	1,345.36	26.5%	3,209.30	32.4%	(1,863.95)	-58.1%
Liabilities under Leasing	28.26	0.6%	24.85	0.3%	3.42	13.7%
Other current liabilities	152.53	3.0%	94.47	1.0%	58.06	61.5%
Liabilities classified as held for sale	12.63	0.2%	4,824.51	48.7%	(4,811.89)	-99.7%
Deferred tax liabilities	30.67	0.6%	60.44	0.6%	(29.76)	-49.2%
Other non-current liabilities	35.11	0.7%	37.73	0.4%	(2.61)	-6.9%
Total liabilities	3,009.27	59.4%	9,083.00	91.8%	(6,073.73)	-66.9%
Total equity	2,060.09	40.6%	815.99	8.2%	1,244.10	152.5%
Total liabilities and shareholders' equity	5,069.37	100.0%	9,898.99	100.0%	(4,829.63)	-48.8%

Total liabilities was 3,009.27 million baht decreased by 6,073.73 million baht or 66.9% from prior year. The decreasing mainly came from the following reasons:

Liabilities classified as held for sales: decreased by 4,811.89 million baht, due to the following reason:

Energy business:

- On March 2022, the Group successfully transferred 4 solar power plants with total capacity of 56.9 megawatts, named Iwaki, Aormori, Hamada 1 and Hamada 2, to a non-related buyer. The major decreasing mainly derived from loan from financial institutions (project finance) total of 4,577 million Baht.

Loan from financial institution and un-related parties: decreasing from prior year by 1,863.95 million Baht due to Energy business repaid all outstanding loan from financial institution which denominated in Japanese currency in current period in order to reduce finance cost. The remaining balance was outstanding debt instrument (bonds) which were due for redemption on August 2022.

Bank overdraft and short-term loan from financial institution: increased by 242.06 million baht due to additional promissory notes and additional support from a financial institution for construction of solar power plant in Thailand. The additional loans were used for purpose of working capital and used as capital expenditure for additional solar power plant project in Thailand. The promissory notes were collateral by cash deposit at bank.

Shareholders' Equity

As at March 31, 2022 and December 31, 2021, total shareholders' equity was Baht 2,060.09 million and Baht 815.99 million, respectively. The increasing by 1,244.10 million baht due to positive operating result in current period.

Financial Ratio	1Q 2022	4Q 2021	3Q 2021	2Q 2021	1Q 2021
EBITDA to total Asset (%)	25.57%	1.39%	1.69%	2.63%	1.02%
Current ratio (time)	1.01	0.86	0.91	0.92	0.91
Liquidity ratio (times)	0.81	0.13	0.47	0.13	0.12
Interest Coverage ratio (times)	16.82	1.45	1.76	2.83	1.08
Debt to Equity ratio (times)	1.46	11.13	10.93	10.15	10.99

4 Analysis of Consolidated Statement of Cashflow

Cash and cash equivalent as of March 31, 2022 total of 826.98 million baht which increased from prior year by 719.93 million baht.

The movement of cashflow can be analysed as follow:

Consolidation Cashflow Summary	million Baht
Cash outflow from operating activities	(452.03)
Cash inflow from investing activities	2,859.37
Cash outflow from financing activities	(1,649.44)
Foreign exchange difference	(44.19)
Cash and cash equivalent increased	713.71
Cash and cash equivalent - broght forward	107.05
Cash and cash equivalent - assets held for sales	6.23
Cash and cash equivalent - carry forward	<u>826.98</u>

Cash outflows from operating activities was 452.03 million baht comprising of cash flows from operating activities of Baht 7.81 million and adjust with changes of assets and liabilities from operation increased by 459.84 million baht

Cash inflows from investing activities for 2,859.37 million baht due to cash proceed from sale of investment in subsidiaries and solar power plants in Japan total of baht 3,236 million and cash paid out for purchasing of fixed assets for 274 million baht and cash paid out for bank guarantee amount of 94.3 million Baht.

Cash outflows from financing activities for 1,649 million baht

- Loan repayment to a financial institution in Thailand for 1,824.48 million baht and loan repayment to un-related parties for 70.8 million baht.
- The Group granted additional loan from a financial institution for 239 million Baht for the purpose of construction solar power plant

Yours sincerely,

(Mr. Anavin Jiratomsiri)

Chief Executive Officer