

Management Discussion and Analysis

For the 2nd Quarter ended August 31, 2022

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the consolidated reviewed the 2nd quarter financial statements as of August 31, 2022 which were reviewed by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited. The operating performance is summarized as follows.

Overview

According to the Bank of Thailand and Office of the National Economic and Social Development Board data, The Thai economy in the second quarter of 2022 increased by 2.5%, following a rise of 2.3% in the first quarter of 2022. The main supporting factors were the return-to-expansion of export goods and private final consumption expenditure. In addition, the relaxation of the COVID-19 restrictions resulting in the number of foreign tourist. Unemployment rate in the second quarter of 2022 was at 1.37% down from 1.89% of the same quarter previous year. However, increasing interest rate, inflation rate and flooding are likely to have an impact to the Thai economy in the second half of year 2022 which will affect to the direction of household consumption expenditure.

The Company performance of the first half of FY2022, total new turnovers increased by 35% y-y, and the second half of FY2022 increased by 30% y-y and 3% Q-Q.

As at August 31, 2022, the Company had total cards as below;

Number of AEONTS Cards and Networks	August 31, 2021	August 31, 2022
Number of Credit Cards (million cards)	3.01	3.19
Number of Member Cards (million cards)	6.28	6.41
Branches	100 branches	103 branches
Bangkok	29%	30%
Province	71%	70%
ATMs (machine)	404	147
Affiliated Dealers	6,272	6,132

Summary of Consolidated Financial Results

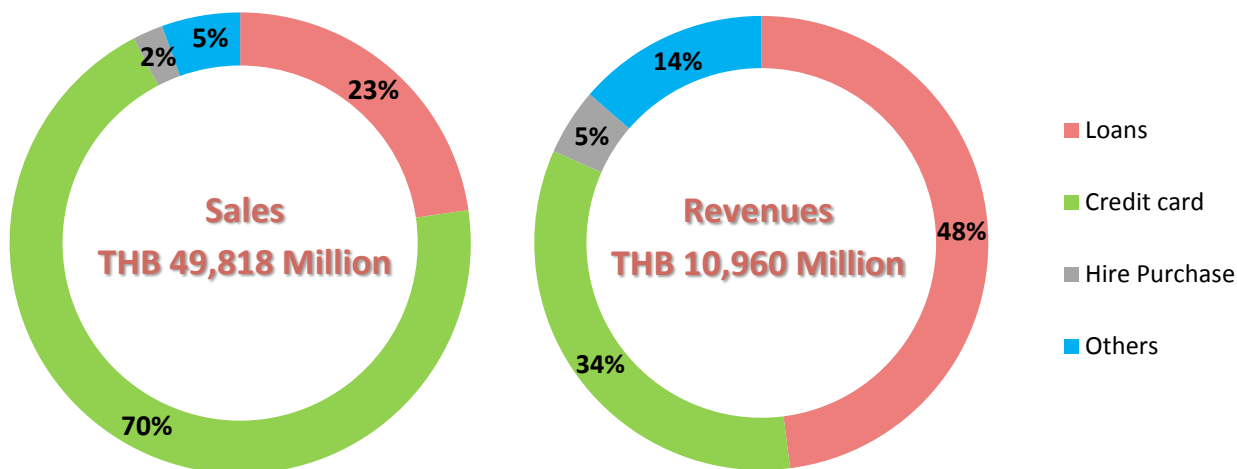
1. Operating Results

Profit and Loss Statement (Consolidated) Unit : Million Baht	Consolidated					Separate		
	2Q/22	%YoY	1H/21	1H/22	%YoY	1H/21	1H/22	%YoY
Credit card income	1,878	18%	3,144	3,688	17%	3,116	3,615	16%
Loan income	2,629	2%	5,198	5,258	1%	5,102	5,213	2%
Hire-purchase income	253	-2%	531	520	-2%	164	127	-23%
Other income	715	-21%	1,513	1,495	-1%	1,515	1,507	-0.5%
Total Revenues	5,475	2%	10,386	10,960	5%	9,898	10,461	6%
Operating and administrative expenses	1,985	1%	3,895	4,018	3%	3,489	3,672	5%
Expected credit loss	1,851	-8%	3,231	3,415	6%	2,618	3,334	27%
Finance costs	468	4%	901	905	0.4%	939	946	0.7%
Other expenses	1	-83%	8	2	-8%	6	1	-83%
Total Expenses	4,305	-3%	8,035	8,340	4%	7,052	7,953	13%
Profit before tax income	1,170	28%	2,351	2,620	11%	2,846	2,509	-12%
Income tax expenses	239	23%	550	530	-4%	524	472	-10%
Net profit for the period	904	33%	1,828	2,018	10%	2,322	2,037	-12%
Earnings Per Share (Baht per share)	3.61	33%	7.31	8.07	10%	9.29	8.15	-12%

Revenues

In the first half of fiscal year 2022, the total consolidated revenues were 10,960 million baht, grew 574 million baht or 5% y-y. In the second quarter of FY2022, the Company recorded revenue at 5,475 million baht, increased 131 million baht or 2% y-y. The increasing mainly came from credit card income grew by 18% y-y which corresponds to increasing in the volume of card spending and cash advance. Other income from bad debt recovery grew by 32% y-y. As at August 31, 2022, the Company has active customers more than 2.6 million, mainly from Bangkok 30%, and in up-country 70%. In terms of overseas business in Cambodia, Myanmar and Laos, they have active customers more than 118,000 users representing 6% of active customers of the Company. The company more focus on sales activities on online channel in order to be in line with consumer behavior. Details of each business can be described as follows:

Sales and Revenues Structure for the first half FY2022



- Credit Card

In the first half year of 2022, credit card sales accounted for 70% of total turnovers with total revenues amounted to 3,688 million baht, increased of 544 million baht or 17% y-y. In the second quarter of FY2022, credit card revenue recorded at 1,878 million baht, increased 284 million baht or 18% y-y. For overseas business, AEON Specialized Bank (Cambodia) Plc recorded credit card revenue in the second quarter of FY2022 of 73 million baht, grew by 30% y-y.

- Loans

In the first half of 2022, loans shared 23% of total turnovers with the loan revenue of 5,258 million baht which was 48% of total revenues, increased of 59 million baht or 1% y-y. In the second quarter of FY2022, loan revenue amounted to 2,629 million baht, increased of 43 million baht or 2% y-y. Moreover, loan income from AEON Specialized Bank (Cambodia) PLC of 107 million baht, decreased by 23% y-y and AEON Microfinance (Myanmar) Company Limited of 1 million baht, decreased by 94% y-y.

The Company has been expanding more online service channels to customers and reduced the Company's operation cost. As a result, the Cardless transactions currently accounted for 95% of total personal loan sales which Promptpay service shared more than 70% of total personal loan sales.

- Hire Purchase

The Company offers motorcycle, used car hire purchase, electrical appliances, mobile phones and others and hire purchase business of overseas subsidiaries. For the first half of FY2022, hire purchase revenues recorded at 520 million baht, decreased of 11 million baht or 2% y-y. In the second quarter of FY2022, hire purchase revenue was recorded at 253 million baht, down by 5 million baht or 2% y-y. In addition, hire purchase income in the first half of FY2022 from AEON Specialized Bank (Cambodia) Plc was 336 million baht, increased by 8% y-y and AEON Leasing Service (Lao) Company Limited of 57 million baht, decreased by 5% y-y.

- Others

In the first half of FY2022, other incomes was recorded at 1,495 million baht or 14% of total revenues, decreased of 18 million baht or 1% y-y. Other revenues comprising of bad debt recovery amounted to 796 million baht, increased 25%, shared 7% of total revenues, Insurance broker business income totaled 341 million baht, shared 3% of total revenues, gain on sales of written-off receivables was recorded at 105 million baht, collection service income was recorded at 111 million baht, and others amounted to 142 million baht accordingly. In the second quarter of FY2022, other income was recorded at 715 million baht, decreased by 21% y-y because the Company recorded a gain on sale of written-off receivables of 320 million baht in second quarter last year but there is no gain on sale of written-off receivables in second quarter this year.

Expenses

The Company's expenses mainly consist of operating and administrative expenses, expected credit loss and finance cost. In the first half of FY2022, the Company had total consolidated expenses of 8,340 million baht, increased of 305 million baht or 4% y-y. In the second quarter of FY2022, the consolidated expenses amounted to 4,305 million baht, decreased of 127 million baht or 3% y-y. Details of expenses are shown as follows:

- Operating and Administrative Expenses

In the first half of FY2022, the consolidated operating and administrative expense totaled 4,018 million baht, increased of 123 million baht or 3% y-y. The increase in operating and administrative expense was mainly from personal expense, administrative and transportation expense, and marketing activities. In the second quarter of FY2022, the consolidated operating and administrative expenses amounted to 1,985 million baht, shared 36% of total revenues which increased of 11 million baht or 0.5% y-y. However, considering the Company separate financial statement cost to income ratio showed at 35% of total revenues both in the second quarter of FY2022 and the first half of FY2022.

- Expected Credit Loss

In the first half of FY2022, the consolidated expected credit loss amounted to 3,415 million baht, increased of 184 million baht or 6% y-y. In the second quarter of FY2022, the consolidated expected credit loss was recorded at 1,851 million baht decreased of 154 million baht or 8% y-y.

- Finance Cost

The Company recorded consolidated finance cost in the first half of FY2022 of 905 million baht, increased of 0.4% y-y. In the second quarter of FY2022, the finance cost was 468 million baht, increased of 20 million baht or 4% y-y, which the portion of finance cost in the second quarter was 8% of total revenues. The average funding cost in the second quarter of FY2022 was at 2.57%

Net Profit

For the first half of FY2022, consolidated operating income was reported at 2,620 million baht, increased of 269 million baht or 11% y-y. Net profit attribute to the parent amounted to 2,018 million baht, increased of 190 million baht or 10% y-y, and earning per share was 8.07 baht. For the second quarter of FY2022, net profit attribute to the parent amounted to 904 million baht increased by 33% y-y. Net profit was mainly contributed by continuing growth of bad debt recovery and efficiently control the operation cost and funding cost.

2. Financial Status

Statement of Financial Position	February 28, 2022	August 31, 2022
Unit : Million Baht		
Accounts Receivable	91,028	93,975
Total Assets	90,469	95,490
Total Borrowing	65,418	68,807
Total Liabilities	70,205	73,478
Total Equities	20,264	22,012
ROE	19.2%	19.5%
ROA	4.0%	4.3%
D/E Ratio	3.5	3.3

Total Assets

As at August 31, 2022, consolidated total assets were 95,490 million baht, increased by 6% from 90,469 million baht as of February 28, 2022. The main assets were attributed to the portfolio of net account receivables which shared 98% of total assets.

- Accounts Receivable

As at August 31, 2022, The Company has accounts receivable of 93,975 million baht increased by 3% from 91,028 million baht as of February 28, 2022 mainly came from new domestic turnovers increased around 3.3 billion baht or 4% from the end of last fiscal year according to marketing activities to support new customers and increasing of outstanding. However, account receivables can be categorized by business type as follows: credit card receivable of 42,181 million baht, grew by 7% from the last fiscal year, loans receivable of 46,218 million baht, grew by 1% from the last fiscal year, hire purchase receivable of 5,495 million baht, down by 7% from the last fiscal year and others receivable totaled 81 million baht accordingly.

- Allowance for expected credit loss

As at August 31, 2022, the Company and its subsidiary provided allowance for expected credit loss of 10,669 million baht or 11.35% of total accounts receivable. For consolidated financial statements, the delinquent account receivables for 3 months and up was 5.3% and default receivables in credit risk (NPL Stage 3) was 5.5%. In part of separate financial statement, the delinquent account receivables for 3 months and up was 4.8% and default receivables in credit risk (NPL Stage 3) was 5%. At the end of second quarter of FY2022, the consolidated coverage ratio of allowance for expected credit loss to NPL (NPL Coverage ratio) was 207%

Liabilities

As at August 31, 2022, the consolidated liabilities of the Company amounted to 73,478 million baht, increased by 5% from 70,205 million baht at the end of last fiscal year. There were both short-term and long-term borrowings totally 68,807 million baht, increasing by 5% from the end of last year. The portion of long-term borrowings was 40,549 million baht or represented 59% of total borrowings. To manage risk that might occur from the fluctuation in currency. The Company has entered cross currency interest rate swap contracts to hedge its debt. In addition, the Company has unused unsecured revolving credit facilities 12,020 million baht and 3,000 million baht unused committed facilities with various financial institutions which is enough to drive the Company's operation. The Company also has the debentures totaling 3,800 million baht that will mature within 12 months, which the Company can issue new debentures or use a working capital to repay as scheduled.

Shareholders' Equity

As at August 31, 2022, total shareholders' equity amounted to 22,012 million baht, increased of 1,748 million baht or 9% from the end of the last fiscal year. Book value as at August 31, 2022 was 86.1 baht per share, increased from 79.6 baht per share as of February 28, 2022.

As at August 31, 2022, Debt to Equity ratio stood at 3.3 times decreased from 3.5 times at the end of FY2021. Return on Equity (ROE) and Return on Asset (ROA) for the first half of FY2022 are 19.5% and 4.3%, respectively.

The Company also announces to pay interim dividend of six month performance at the amount 2.55 baht per share or 31.6% payout ratio. The shareholder register book for the right to receive dividends shall be recorded on October 19, 2022 (XD will be posted on October 18, 2022) and dividend will be paid on November 2, 2022.

Key Financial Ratio	2Q21	2Q22	Aug'21	Aug'22
Net Profit Margin (%)	12.7%	16.5%	17.6%	18.4%
Interest Coverage ratio (Times)	3.0	3.4	3.6	3.9
Cost to Income (%)	36.9%	36.2%	37.5%	36.6%
EPS (Baht)	2.71	3.61	7.31	8.07

Key Financial Ratio	As of August 2021	As of August 2022
Allowance for Expected Credit Loss/ Total Receivables (%)	12.6%	11.3%
NPL Coverage Ratio (%)	243%	207%
Book Value per Share (Baht)	72.6	86.1