



S.Khonkaen Foods PCL. and its subsidiaries ("Company")

Management Discussion and Analysis

For the nine-month ended 30 September 2022

Business Overview

In Q3/2022, the Company's total sales amounted to THB 809 million, increased by 17.1% YOY.

The Company has revenue from sales in the third quarter amounted to THB 809 million, representing an **increased by 17.1 percent** as compared to the same quarter of previous year (an increased by 4.9 percent from Q2/2022), due to sales growth via Modern Trade channels after the lifting of measures on the coronavirus disease 2019 ("Covid-19") pandemic and the launch of new Thai traditional food products, e.g., Spicy Fermented Sausage with Gooseberry Leaf, Processed Meat Snack under the "Sor Okkainarok (S. Spicy Chicken Breast)" brand and ready-to-eat products, such as, Fried Rice with Fermented Sausage and Chili, Spicy Vietnamese Sausage Salad, Tofu-Pork Meatballs, etc. in response to consumers' behaviour, including positive sales in the swine farming business thanks to the rising market price of pork

The Company has revenue from sales for the first nine months amounted to THB 2,328 million, representing an **increased by 14.2 percent** as compared to the same period of previous year. Sales in processed food from pork, which accounted for 50 percent of total revenue from sales, showed a growth rate with an **increased by 10.7 percent** as compared to the same period of previous year, whereas sales in processed seafood sector, which accounted for 34 percent of total revenue from sales, showed a growth rate with an **increased by 7.2 percent** as compared to the same period of previous year

Profit attributable to the Company for the first nine months of 2022 amounted to THB 83 million, decreased by 10.4% YOY, due to the increased costs of main raw materials

The Company has gross profit in the third quarter amounted to THB 190 million, representing 23.5 percent of revenue from sales. The gross profit margin **decreased by 3.0 percent** as compared to the same quarter of previous year, due to the increasing market prices of pork and chicken by over 20-60 percent as compared to the average prices in the previous year. Moreover, the public utility costs, namely electricity costs, were increasing and as such, the Company focused on cost management and price restructuring since the end of the first quarter, while the swine farming business generated higher gross profit from such price margins.

The Company has gross profit for the first nine months amounted to THB 568 million, representing 24.4 percent of revenue from sales. The gross profit margin **decreased by 1.7 percent** as compared to the same period of previous year.

The company has net profit in the third quarter amounted to THB 18 million, representing 2.2 percent of revenue from sales, an **increased by 100 percent** as compared

to that of the previous year (an decreased by 55.0 percent from Q2/2022). Upon comparison of net profit margin to sales, the profit increased by 1.0 percent as compared to that of the same quarter of previous year.

The company has net profit for the first nine months amounted to THB 83 million, representing 3.6 percent of revenue from sales, a **decreased by 9.8 percent** as compared to the same period of previous year. Upon comparison of net profit margin to sales, the profit decreased by 0.9 percent as compared to the same period of previous year.

The Company recognized loss on change in fair value less cost of sales of biological assets in the first nine months in the amount of THB 1 million, decreased by THB 2 million from the same period of last year. If such entry is excluded, the Company's profit in the first nine months would amount to THB 84 million representing 3.6 percent of revenue from sales, decreased by 12.5 percent from the same period of last year.

Income Statements (Consolidated) Quarter 3 (July - September)	Quarter 3 2022		Quarter 3 2021		Change	
	(THB Mil.)	(%)	(THB Mil.)	(%)	(%YOY)	(%QOQ)
Revenue from Sales	809	100.0 %	691	100.0 %	17.1 %	4.9 %
Cost of Sales	(619)	(76.5 %)	(508)	(73.5 %)	21.9 %	5.8 %
Gross Margin	190	23.5 %	183	26.5 %	3.8 %	2.2 %
Selling and Distribution Expenses	(87)	(10.8 %)	(67)	(9.7 %)	29.9 %	6.1 %
Administrative Expenses	(79)	(9.8 %)	(99)	(14.3 %)	(20.2 %)	16.2 %
EBIT	33	4.1 %	20	2.9 %	65.0 %	(45.0 %)
Financial Cost	(8)	(1.0 %)	(8)	(1.2 %)	0.0%	14.3 %
Tax Expenses	(7)	(0.9 %)	(3)	(0.4 %)	133.3 %	(46.2 %)
Profit: Equity holders of the Company	18	2.2 %	9	1.3 %	100.0 %	(55.0 %)
Earning per Share (THB/Share)	0.05		0.03			

Income Statements (Consolidated) Year-To-Date (January - September)	YTD Sep 2022		YTD Sep 2021		Change	
	(THB Mil.)	(%)	(THB Mil.)	(%)	(%YOY)	
Revenue from Sales	2,328	100.0 %	2,038	100.0 %	14.2 %	
Cost of Sales	(1,760)	(75.6 %)	(1,506)	(73.9 %)	16.9 %	
Gross Margin	568	24.4 %	532	26.1 %	6.8 %	
Selling and Distribution Expenses	(243)	(10.4 %)	(171)	(8.4 %)	42.1 %	
Administrative Expenses	(209)	(9.0 %)	(242)	(11.9 %)	(13.6 %)	
EBIT	131	5.6 %	129	6.3 %	1.6 %	
Financial Cost	(22)	(0.9 %)	(23)	(1.1 %)	(4.3 %)	
Tax Expenses	(26)	(1.1 %)	(13)	(0.6 %)	100.0 %	
Profit: Equity holders of the Company	83	3.6 %	92	4.5 %	(9.8 %)	
Earning per Share (THB/Share)	0.26		0.29			

Core Business

1. Processed Food from Pork

New products launched in response to consumers' behavior and cost management to mitigate impact of main raw materials

The Company has revenue from sales in the third quarter amounted to THB 417 million, representing 52 percent of total sales, with a growth rate **increased by 11.8 percent** as compared to the same quarter of previous year (an increased by 5 percent from Q2/2022), and its gross profit amounted to THB 77 million, representing 18.4 percent of revenue from sales.

The Company has revenue from sales for the first nine months amounted to THB 1,170 million, representing 50 percent of total sales, with a growth rate **increased by 10.7 percent** as compared to the same period of previous year, and its gross profit amounted to THB 241 million, representing 20.6 percent of revenue from sales, The Company's revenue continued to grow, particularly via convenience stores, and new products could be distributed as planned.

The fluctuating and likely rising prices of pork and chicken, which accounted for the major production costs since late last year directly affected the gross margin. However, the Company focused on its internal management efforts by way of, among others, increase in the stock of raw materials at reasonable price, adjustment of credit terms for cash discount, including price restructuring.

2. Processed Seafood

Increase in distribution of products via 'community refrigerators' project to reach more new consumer groups

The Company has revenue from sales in the third quarter amounted to THB 270 million, representing 33 percent of total sales, with a growth rate **increased by 10.5 percent** as compared to the same quarter of previous year (a decreased by 2.7 percent from Q2/2022), and its gross profit amounted to THB 66 million, representing 24.4 percent of revenue from sales.

The Company has revenue from sales for the first nine months amounted to THB 799 million, representing 34 percent of total sales, with a growth rate **increased by 7.3 percent** as compared to the same period of previous year, and its gross profit amounted to THB 196 million, representing 24.6 percent of revenue from sales. Domestic sales grew due to the Company's policy on sales increase via new Modern Trade and Traditional Retail channels with partners' community refrigerators project.

Despite such impact on the Company from the rising prices of seafood, as the main raw materials, the Company restructured product pricing and launched new ready-to-eat products via Modern Trade channels under the name "Im Khum" menu sets, e.g., Large Fish Ball, Fish Noodle and Fish Ball Soup.

3. Quick Service Restaurant (QSR)

Revised sales plan and cost management for every branch to generate operating profits

The Company has revenue from sales in the third quarter amounted to THB 19 million, representing 2 percent of total sales, with a growth rate **increased by 111.0 percent** as compared to the same quarter of previous year (unchanged from Q2/2022), and its gross profit amounted to THB 8 million, representing 43.4 percent of revenue from sales.

The Company has revenue from sales for the first nine months amounted to THB 53 million, representing 2 percent of total sales, with a growth rate **increased by 32.4 percent** as compared to the same period of previous year, and its gross profit amounted to THB 25 million, representing 47.2 percent of revenue from sales. Last year, the Company closed certain branches which suffered from high operating loss due to the Covid-19 situations. Sales in the remaining branches and via delivery service channels tended to improve from last year, and during this period, a new branch was opened in Muang Thong Thani, Nonthaburi Province.

4. Swine Farming

Market price of pork stays high, which will give rise to positive impact on profit of the swine farming business

The Company has revenue from sales in the third quarter amounted to THB 102 million, representing 13 percent of total sales, with a growth rate **increased by 58.7 percent** as compared to the same quarter of previous year (an increased by 10.9 percent from Q2/2022), and its gross profit amounted to THB 38 million, representing 37.6 percent of revenue from sales.

The Company has revenue from sales for the first nine months amounted to THB 305 million, representing 13 percent of total sales, with a growth rate **increased by 56.8 percent** as compared to the same period of previous year, and its gross profit amounted to THB 105 million, representing 34.6 percent of revenue from sales. The swine farming business continued to be positively affected by the market price of pork since the fourth quarter of last year, which enabled the Company to manage and minimize its overall costs. The Company also invested in and focused on control of the swine farming to meet biosecurity standards.

Revenue from Sales Segment Information	Quarter 3 2022			YTD September 2022	
	(THB Mil.)	(%YOY)	(%QOQ)	(THB Mil.)	(%YOY)
Grand Total	809	17.1%	4.9%	2,328	14.2%
- Processed food from pork	417	11.8%	5.0%	1,171	10.7%
- Processed seafood	271	10.6%	3.0%	799	7.2%
- Quick Service Restaurant (QSR)	19	111.1%	0.0%	53	32.5%
- Swine farm	102	59.4%	10.9%	305	56.4%

Revenue from lease and services

The Company has revenue from rental and service in the third quarter amounted to THB 3 million, with a growth rate **decreased by 15.8 percent** as compared to the same quarter of previous year.

The Company has revenue from rental and service in the first nine months amounted to THB 8 million, with a growth rate **decreased by 20.3 percent** as compared to the same period of previous year as a result of return of the leased premises of S.Tower Office Building on Bang Na-Trad Road, where the Company's office is located.

Selling and distribution expenses

The Company has selling and distribution expenses in the third quarter amounted to THB 87 million, representing 10.8 percent of revenue from sales. The ratio of selling and distribution expenses to sales **increased by 1.1 percent** from the same quarter of previous year.

The Company has selling and distribution expenses in the first nine months amounted to THB 243 million, representing 10.4 percent of revenue from sales. The ratio of selling and distribution expenses to sales **increased by 2.0 percent** from the same period of previous year due to such increase in the costs of delivery and the up-front and marketing fees for distribution of new products.

Administrative expenses

The Company has administrative expenses in the third quarter amounted to THB 79 million, representing 9.8 percent of revenue from sales. The ratio of administrative expense to sales **decreased by 4.5 percent** from the same quarter of previous year.

The Company has administrative expenses in the first nine months amounted to THB 209 million, representing 9.0 percent of revenue from sales. The ratio of administrative expense to sales **decreased by 2.9 percent** from the same period of previous year.

Financial Highlights as of September 30, 2022

Assets

The Company's total assets amounted to THB 2,920 million, representing an increase by 4.8 percent as compared to that at the end of previous year. Inventory increased from the rising prices of raw materials and the stock of raw materials for production due to the tentative high prices of raw materials. Property, plant and equipment increased from seafood market expansion via community refrigerators project, and swine farming business to enhance the efficiency in biosecurity.

Liabilities

The Company has total liabilities amounted to THB 1,662 million, representing an increase by 6.5 percent as compared to that at the end of previous year. Current liabilities increased by 5.4 percent and non-current liabilities increased by 8.2 percent from an increase in credit facilities for operations., As of September 30, 2022 the debt to equity ratio was 1.32 times.

Shareholders' Equity

The Company has total shareholders' equity amounted to THB 1,258 million, representing an increase by 2.8 percent as compared to that at the end of previous year.

Statements of Financial Position (Consolidated)	<u>September 30, 2022</u>		<u>December 21, 2021</u>		<u>Change</u>
	(THB Mil.)	(%)	(THB Mil.)	(%)	(%YOY)
Total Assets	2,920	100.0 %	2,785	100.0 %	4.8 %
Current Assets	1,058	36.2 %	939	33.7 %	12.7 %
- Cash and cash equivalents	135	4.6 %	103	3.7 %	31.1 %
- Trade and other receivables	451	15.4 %	432	15.5 %	4.4 %
- Inventories	346	11.8 %	277	9.9 %	24.9 %
- Current biological assets	99	3.4 %	112	4.0 %	(11.6 %)
Investment Properties	631	21.6 %	629	22.6 %	0.3 %
Property, Plant, and Equipment	1,102	37.7 %	1,084	38.9 %	1.7 %
Right-of-use Assets	103	3.5 %	104	3.7 %	(1.0 %)
Total Liabilities	1,662	56.9 %	1,561	56.1 %	6.5 %
Current Liabilities	1,019	34.9 %	967	34.7 %	5.4 %
Non-Current Liabilities	643	22.0 %	594	21.3 %	8.2 %
Total Shareholders' Equity	1,258	43.1 %	1,224	43.9 %	2.8 %
Equity holders of the Company	1,256	43.0 %	1,222	43.9 %	2.8 %
NCI of the subsidiaries	2	0.1 %	2	0.1 %	0.0 %