

At TIGER 006/2565

11 November 2022

Subject: Management Discussion and Analysis for the nine-month period ended 30 September 2022

To: Managing Director, the Stock Exchange of Thailand

Please find management discussion and analysis for the nine-month period ended 30 September 2022 of Thai Enger Holding Public Company Limited (“the Company”) as the following details:

**The Consolidated Financial Statements the nine-month period ended 30 September 2022 and 2021:**

Million Baht	Q3 2564	%	Q3 2565	%	Inc/(Dec)	%
Revenues from sales and services	500.65	100.00%	454.72	100.00%	(45.93)	(9.17%)
Cost of sales and services	439.18	87.72%	410.01	90.17%	(29.17)	(6.64%)
<b>Gross profit</b>	<b>61.47</b>	<b>12.28%</b>	<b>44.71</b>	<b>9.83%</b>	<b>(16.76)</b>	<b>(27.26%)</b>
Selling expenses	1.84	0.37%	2.25	0.49%	0.41	22.28%
Administrative expenses	33.94	6.78%	32.47	7.14%	(1.46)	(4.31%)
<b>Profit from operation</b>	<b>25.69</b>	<b>5.13%</b>	<b>9.99</b>	<b>2.20%</b>	<b>(15.70)</b>	<b>(61.12%)</b>
Other income	3.13	0.63%	1.26	0.28%	(1.87)	(59.66%)
<b>Profit before interests and taxes</b>	<b>28.82</b>	<b>5.76%</b>	<b>11.25</b>	<b>2.47%</b>	<b>(17.57)</b>	<b>(60.96%)</b>
Share of loss from associate	(0.19)	(0.04%)	0.11	0.02%	0.30	100.00%
Finance costs	(0.57)	(0.11%)	(1.80)	(0.40%)	(1.23)	216.82%
Income tax expense	(6.01)	(1.20%)	(2.53)	(0.56%)	3.48	(57.95%)
<b>Profit for discontinued operation</b>	<b>22.05</b>	<b>4.40%</b>	<b>7.04</b>	<b>1.55%</b>	<b>(15.02)</b>	<b>100.00%</b>
Profit on discontinued operation	0.25	0.05%	0.00	0.00%	(0.25)	(100.00%)
<b>Net profit</b>	<b>22.30</b>	<b>4.46%</b>	<b>7.04</b>	<b>1.55%</b>	<b>(15.27)</b>	<b>(68.46%)</b>

On 14 February 2022, the Group sold all investments in TE Mac Co., Ltd., to non-related party. As a result, TE Mac Co., Ltd., changed its status from subsidiary to non-related since 18 February 2022, onwards. The Company presents operating results of TE Mac Co., Ltd., as profit from discontinued operations, separately from normal operating results in the consolidated statement of comprehensive income for the nine-month ended 30 September 2022 and 2021 as presented.

During the third quarter of 2022, Thailand current economic situation, previously impacted severely by Covid-19 pandemic, has slightly recovered. The domestic Covid-19 measures and the international travel restriction have both been dropped causing the day-to-day life to slowly get back to normal and the domestic demand is slightly driven up. Despite such positive outlook, the impacts from the long lasting pandemic severely affected the revenues and financial position of many customers and private project owners, together with the fallout from Russia-Ukraine conflict, and the global inflationary pressures amid rising material, wage and energy prices make a huge surge in the production costs of 2022 resulting in the fragile and weakened economic

recovery to be expected. According to the research from Chamber of Commerce and Board of Trade of Thailand, Thailand's economic growth forecast for 2022 is 3.2% citing growing inflationary pressures of 4.9%. The construction industry outlook for the year 2022 is expected to face another difficult year and the challenge is expected to continue through the year and eventually recovered in the year 2023. Even though overall construction section of 2022 is expected to grow 4% but most of the growth are driven by the government spending on infrastructure mega projects where only handful of large-scale contractors were exclusively beneficial. The construction from private sector such as residential, commercial and hotel projects, on the other hand, is expected to be recovered much slower by the end of 2022. Moreover, the construction industry in 2022 will face three major obstacles; 1) The Material prices that are still severely elevated and highly fluctuated 2) Labor shortages and 3) The deteriorate financial position and cashflows of many private project owners from the long pandemic, adding the challenge to the Group's ability to collect its outstanding debts and retention.

The Group adopted the following strategies to overcome these crisis ;

- 1) Expand to the public sector such as public utility construction projects in order to compensate for the downturn in private sector. The Group adopted several arrangements, not only as prime contractor work directly with the government but as subcontractor to other main contractor and as joint venture / consortium entities with other business partners. For the nine-month period ended 30 September 2022, the revenues proportion between public and private sector was 80 to 20, while the construction backlog proportion was 86 to 14. The proportion of public to private sector has been much bigger comparing to those around 50 to 50 pre-covid level.
- 2) For the private sector where the demand for hotel and condominium construction declined, the Group shifted its marketing effort to unaffected areas such as construction of data center and cloud infrastructure, green building solution, trade logistic hub and the construction of small and short-life private construction projects which have less effects from the outbreak such as high-end private residence projects and the project of installation of sound and electronic system for the international conference expo.
- 3) The Group made strategic change on construction project bidding and acquiring. Under the uncertainty on labor and material price, the Group revised its bidding strategy from competitive and aggressive to more prudent and conservative manners. The Group prudently screened the new bidding projects for a high-profile and adequate gross margin, together with the strong financial background from the project owner.
- 4) The Company's business activities have been adapted to a new way of living-with-Covid-19. The extreme measurements such as the site lockdown and the logistic restriction between sites were permanently dropped. The Company focused on adjusting for safety environment and work routine in the construction sites in order to allow business to goes on without sacrificing for the employee safety.

- 5) The Company made ready for the labor shortage by introducing new construction technology and building innovation. During the beginning of April 2021, the Company invest in newly established subsidiary, Cons Inno Company Limited. with the objective of operating in a business of procurement and sale of building materials focusing on innovative construction technologies.
- 6) Under the high elevation of material price, the Company pay absolute attention to the construction cost control by cautious and comprehensive project budgeting, prudent purchase planning, using the deposits for material purchase and the close communication with vendors.
- 7) In 2022, the Company choose to focus on maintaining its cashflows by speeding up work billing and debt collection rather than accelerating project progress and acquiring a new construction projects.

Because of the situation and the mention strategies adopted, the operation performance for the third quarter of 2022 was significantly decline comparing to the same period last year. The reasons for the sharp decline of revenues recognition according to the work progress in the third quarter of 2022 are from the decrease of the number of constructions on hand, the decrease in the project's progress due to the Company's strategy to shift focus from accelerating the construction progress to deliver the work, billing the invoice and collecting the long outstanding debts and the lower profitability of current projects on hand comparing to those of the last year. Despite all those shortcomings, the Company still manage to acquire and increase its new construction projects. The company's construction backlog as at 30 September 2022 was THB 963 million remained unchanged comparing to THB 960 million at 31 December 2021. The analysis of operation performance can be presented as follows;

### **Revenue from Sales and Services**

The Group has revenue from sales and services for the nine-month period ended 30 September 2022 and 2021 equivalent to THB 500.65 million and THB 454.72 million respectively, decreasing by THB 45.93 million or equivalent to 9.17% compared to that from last year. The decrease is due to the following reasons 1) The decrease in the number of construction projects on hand. Due to the Company' s strategy to speed up the work's delivery of construction project on hand during 2021 and the facts that no new additional projects acquired during the 9 month period of 2022, the numbers of projects on hand during 2022 was only 6 projects comparing to 9 projects from the same period in 2021. The Company, however, was able to secure the new big public projects starting its construction in the fourth quarter of 2022. 2) The construction delay from the small cluster infections in the construction sites. As the Company's strategy to live with Covid-19, the site lockdown and logistic restriction were dropped and replaced with using monitoring and quarantining bubble to limit the risk of infection. As a result, the Company has faced many but controllable outbreaks in the construction sites causing inevitable delay in the construction progress comparing to the same period last year when the extreme measurements of bubble and seal were adopted. 3) The Company's strategy to focus on billing the invoice and collecting the long outstanding debts rather than accelerating the progress. under the

uncertainty of economic climate with many project owners facing the cashflow problem and the Company's cashflows had been used up to speed up the progress delivery in 2021, the Company, this year, decide to step back and intentionally slow down its work delivery until the payments was made in order to reduce the possible credit risk. This made the revenues recognized under the percentage of completion to decrease. As at September 30, 2022, the amount of unbilled completed works presented in the financial statement was THB 350.57 million decreasing by 58.87 million or 14% comparing to those as at December 31, 2021.

The major construction projects recognized in the third quarter of 2022 were Ayuthaya water production facilities project with revenues recognized of THB 245 million, the Out Patient Department building at Nakorn Nayok with revenues recognized of THB 90 million and Data center building project with revenues recognized of THB 32 million. The Company also recognized the new project of installation of sound and electronic system for APEC SME conference expo at Phuket with the amount of THB 14.02 million. Beside the revenues from construction segment, the revenues from construction supporting segment by TEG Aluminum Company and Cons Inno for the third quarter of 2022 were totally THB 6.23 million, (excluded inter company transaction.)

### **Cost of Sales and Services**

For the second quarter of 2022, the Group has cost of sales and services equivalent to THB 410.01 million, decreasing by THB 29.17 or 6.64% from same period last year, moving in the same proportion of decrease in sale. The proportion of cost to sale for the third quarter of 2022 is 90.17%, increased from that of 87.72% from last year.

### **Gross Profit**

The Group's gross profit for the third quarter of 2022 decreased by THB 16.76 million, equivalent to 27.26% compared to same period last year. The gross margin was 9.83% slightly decreasing from last year of 12.28%. The majority of revenues recognized during the second quarter came from the government project with high volume but less gross margin than that of private sector. According to their budget, the projects recognized in the third quarter of 2022 had the average profitability ratios 9.16%, much lower than that of 12.00 from the same period last year. Moreover, during the third quarter of 2022, the construction materials, such as steels, cement and copper have experienced significant rates of price increases, making it harder for the Company to manage its budget and saving the construction cost during the project completion.

### **Selling and Administrative expenses**

For the third quarter of 2022, the Group 's selling and administrative expenses was THB 34.72, remaining unchanged from THB 35.78 million from the previous year due to the Company's effort of cost monitoring and expense control.

**Net Profit**

For the third quarter of 2022, the Group 's net profit was THB 7.04 million decreasing by THB 15.27 million, equivalent to 68.46% compared to the previous year. The decline was due to the major downturn of construction industry not-yet recovered from Covid-19 pandemic, the Company's strategy to intentionally slowdown which cause the major delay of construction progress and the revenue recognition under the percentage of completion, together with the fact that the construction projects recognize during the third quarter of 2022 provided the less profit margin than that from the previous year.

Yours sincerely,

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(Mr.Viboon Pojanalai)

Chief Financial Officer