

CHOW 252/ 2022

14 November 2022

Subject : Management’s Discussion and Analysis for the three-month and nine-month periods ended 30 September 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 and nine-month periods ended 30 September 2022. The analysis topics are as follows;

1. Management Discussion & Analysis
2. Company performance analysis
  - 2.1 Analysis for the three-month period ended 30 September 2022
  - 2.2 Analysis for the six-month period ended 30 September 2022
3. Consolidated statement of financial position analysis
4. Consolidated statement of cash flows analysis

## **1. Management Discussion & Analysis**

In the third quarter of 2022, Chow Steel Industries Public Company Limited and its subsidiaries (the Group) expanded its operations to include new businesses that promote and support the business that has been continuously growing since the first and second quarters of the current year, such as the trading business of various types of steel products and the cryptocurrency mining business. The new businesses mainly combine internal expertise and relationships with partners in the same business group both domestically and internationally to create opportunities and generate profits for shareholders. And also the ability to expand the solar energy business in Thailand, both in the form of private PPA investment and installation of solar power generation (EPC) systems for large and medium customers operating in a variety of industries, which can be summarized separately for each type of business as follows

**Steel business:** The general outlook for the steel business in the current quarter has improved in terms of demand and steel prices. In addition, the Group has improved the production process with standardized products, i.e. billets and rounds, since 2021. This has resulted in the Group receiving additional OEM orders compared to Q1 and Q2 2022. The Trading Business Unit has also further expanded its sales capacity and is generating additional profits from normal operations.

**Renewable Energy business:** The Group continues to expand solar power plant projects both in Thailand and overseas. In Q3 2022, the Group received approval from the Provincial Electricity Authorities (PEA) to sell electricity to customers with a total capacity of 12.28 MWh, which is in line with the target of 25.2 MWh. The approval process took longer than expected. However, the Group received approval for COD to deliver an additional 11.2 MWh of electricity to customers in early October 2022. The result of the additional sale was recorded at Baht 4.34 million in the current period. As of Q3 2022, the Group has a total capacity of COD amounting to 18.9 MWh.

**Cryptocurrency Mining business:** The group began mining cryptocurrencies in 2Q2022, and the group received cryptocurrency coins as rewards for participating in processing for verification on the blockchain system. In 3Q2022, the Group fully offered the cryptocurrency mining service and collected cryptocurrencies as inventory. During the period, the Group sold some of the coins for profit at a reasonable price. Although the market price of cryptocurrencies seems to fluctuate from time to time in the current period due to uncontrollable external factors, the Group achieved potential operating profit in both 2Q and 3Q 2022 in this BU. CAPEX cost for the mining network for cryptocurrencies are not significant which provides more flexibility for efficient operation.

In the current period, the Group had negative impact of exchange rate fluctuation which resulted in unrealized loss on translation which was recorded as Baht 18.5 million in accordance with the accounting standard. The total revenues of some business units have shifted but still do not cover the operating and administrative expenses, so the Group reported total revenues of Baht 159.6 million and net loss of Baht 56.4 million in the third quarter of 2022.

## 2. The Group Performance Analysis

### 2.1) Analysis for the 3-month period YoY and QoQ

Operating Result_Q3 2022	Q3 2022	Q3 2021	Changes [YoY]		Q3 2022	Q2 2022	Changes [QoQ]	
	Mb	Mb	Mb	%	Mb	Mb	Mb	%
Total revenue	159.64	61.47	98.18	159.7%	159.64	392.35	(232.70)	-59.3%
Gain on sales of investments in subsidiaries and solar power plants	-	21.85	(21.85)	-100.0%	-	1.83	(1.83)	-100.0%
Total cost	140.04	51.03	89.01	174.4%	140.04	375.22	(235.18)	-62.7%
<b>Profit margin</b>	<b>19.60</b>	<b>32.29</b>	<b>(12.68)</b>	<b>-39.3%</b>	<b>19.60</b>	<b>18.96</b>	<b>0.64</b>	<b>3.4%</b>
Gross Profit Margin (%)	12.3%	38.8%	-26.5%		12.3%	4.8%	7.5%	
Other income	0.13	0.20	(0.08)	-37.2%	0.13	18.35	(18.23)	-99.3%
Selling Expenses	(0.06)	-	(0.06)	100.0%	(0.06)	0.06	(0.12)	-200.0%
Administrative Expenses	41.82	46.26	(4.44)	-9.6%	41.82	42.14	(0.31)	-0.7%
Reversal of expected credit loss on financial assets	-	-	-	-	-	(16.17)	16.17	-100.0%
<b>Profit (loss) from operation</b>	<b>(22.03)</b>	<b>(13.77)</b>	<b>(8.26)</b>	<b>60.0%</b>	<b>(22.03)</b>	<b>11.29</b>	<b>(33.32)</b>	<b>-295.2%</b>
Gain (loss) on foreign exchange rate	(18.53)	(46.42)	27.89	-60.1%	(18.53)	8.62	(27.15)	-315.0%
Share of loss from investments in joint ventures	(0.09)	(0.05)	(0.04)	66.6%	(0.09)	(0.04)	(0.05)	136.0%
<b>Profit (loss) before finance cost and income tax</b>	<b>(40.66)</b>	<b>(60.25)</b>	<b>19.59</b>	<b>32.5%</b>	<b>(40.66)</b>	<b>19.87</b>	<b>(60.53)</b>	<b>-304.6%</b>
Finance cost	(13.95)	(43.81)	29.86	-68.2%	(13.95)	(24.14)	10.19	-42.2%
<b>Profit (loss) before income tax</b>	<b>(54.61)</b>	<b>(104.06)</b>	<b>49.45</b>	<b>47.5%</b>	<b>(54.61)</b>	<b>(4.27)</b>	<b>(50.33)</b>	<b>1177.8%</b>
Corporate Income Tax	(1.68)	(2.43)	0.75	-30.7%	(1.68)	(0.12)	(1.56)	1314.7%
<b>Profit (loss) for the period - continued operation</b>	<b>(56.29)</b>	<b>(106.49)</b>	<b>50.20</b>	<b>47.1%</b>	<b>(56.29)</b>	<b>(4.39)</b>	<b>(51.90)</b>	<b>1181.5%</b>
<b>Profit (loss) for the period - discontinued operation</b>	<b>(0.13)</b>	<b>27.80</b>	<b>(27.94)</b>	<b>-100.5%</b>	<b>(0.13)</b>	<b>20.00</b>	<b>(20.13)</b>	<b>-100.7%</b>
<b>Profit (loss) for the period</b>	<b>(56.43)</b>	<b>(78.69)</b>	<b>22.26</b>	<b>28.3%</b>	<b>(56.43)</b>	<b>15.61</b>	<b>(72.03)</b>	<b>-461.5%</b>

#### Total Revenue:

##### **For the 3-month period ended 2022 and 2021 [YoY analysis]**

Total revenue in 3Q2022 was Baht 159.64 million which was significant shifted from prior year at Baht 76.2 million. The increasing can be analysed separate by business unit as follow:

**Steel business:** In the current reporting period, the Group received more OEM orders for both steel billets and rounds, resulting in revenue of Baht 98.05 million, compared to the third quarter of 2021, when the Group recognized revenue of Baht 10.62 million for cost reimbursement and no OEM orders

##### **Renewable Energy business:**

**Sale of electricity:** The Group reached COD for additional 12.28 MWh in current period and recognized additional revenue from sale electricity for 4.06 million Baht in current period.

**EPC:** The revenue from EPC service have been reduced from prior year 30.52 million Baht due to large projects had been completed since 2021. The current project in 3Q 2022 were small and medium projects.

**Operating and Maintenance Service [O&M]:** The Group have been engaged as the operating and maintenance service provider for 4 solar power plants in Japan during April to July 2022. As a result, the Group recognized revenue for OM service 4.16 million Baht in current period.

**Cryptocurrency Mining business:** The Group fully operated the mining service and recognized revenue from the sale of inventories (cryptocurrencies) totaling Baht 16.16 million (2021: nil). The Group sold some coins during the reporting period to pay for operating costs and to generate profits from market price fluctuations.

**For the 3-month period ended 30 Sept 2022 and 30 Jun 2022 [QoQ analysis]**

Total revenue decreased by 232.7 million baht compared to 2Q 2022, mainly from the trading unit of the steel business, which had received a sales order for steel billets amount of 220 million baht in 2Q 2022 (3Q 2022: no trading in steel billets).

**Profit margin Analysis:**

**For the 3-month period ended 2022 and 2021 [YoY analysis]**

The overall profit margin of the Group presented at 19.6 million baht or equivalent to 12.5% decreased from prior year was Baht 32.29 million or 38.8%. In 3Q2021, it was included gain from sale of 1 solar power plant in Japan total of Baht 21.85 million Baht (3Q 2022: nil).

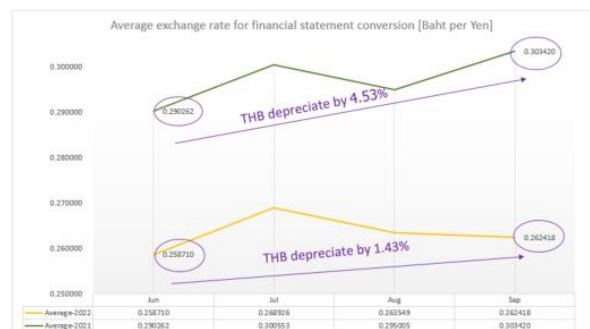
**For the 3-month period ended 30 Sept 2022 and 30 Jun 2022 [QoQ analysis]**

Gross profit margin expressed in Baht was 18.96 million Baht in 2Q2021, which is not a significant change compared to 3Q2022. However, gross profit margin percentage changed significantly from 4.8% in 2Q2022 to 12.3% in 3Q2022. The lower gross profit margin percentage in 2Q2022 was due to the contribution of profit margin from steel billet trading, which was 1.36%, and the fact that there were no significant trading transactions in the current period.

**Gain/ (loss) on foreign exchange rate**

Unrealised gain (loss) on foreign exchange rate mainly derived from energy business. In 3Q 2022, the Group recognized unrealized loss from exchange rate total of Baht 18.53 million meanwhile unrealized loss on foreign exchange rate of Baht 46.42 million were recognized in prior year the same period. The difference of balances came from fluctuation of exchange rate in the money market which were used for conversion of outstanding loan from related party in Japanese Yen to Thai Baht currency according to accounting standard. The fluctuation of exchange rate was presented as follow:

- As at 30 September 2022 THB currency was depreciate against JPY currency from 30 June 2022 by 1.43%. The Company converted loan from related party which denominated in JPY currency into THB currency, as a result the company additional recognized loan liabilities against unrealized gain on exchange rate.
- On the other hand, the exchange rate at 30 September 2021 THB currency was depreciated against JPY currency from 30 June 2021 by 4.53%. As a result, the Company had more outstanding loan, which was converted from JPY into THB currency, as a result the company additional recognized loan liabilities against unrealized gain on exchange rate.



## Finance Cost

Finance cost of the Group decreased by 29.86 million Baht or 68.2% YoY which came from Steel business and Renewable business due to debenture and loan repayment to financial institutions, who supported on construction of solar power plant project, in oversea and domestic. According to the loan principles were reduced, the interest expenses were decreased.

### 2.2) Analysis for the 9-month period ended 30 September 2022 and 2021

Operating Results	9-month period ended 30 Sept		Changes [YoY]	
	2022	2021		
	Mb	Mb	Mb	%
Total revenue	764.60	123.87	640.74	517.3%
Gain on sales of investments in subsidiaries and solar power plants	1,425.12	90.10	1,335.02	1481.7%
Total cost	717.88	104.17	613.71	589.1%
<b>Profit margin</b>	<b>1,471.84</b>	<b>109.80</b>	<b>1,362.05</b>	<b>1240.5%</b>
Gross Profit Margin (%)	67.2%	51.3%	15.9%	
Other income	19.62	6.68	12.93	193.5%
<b>Profit before selling and administrative expenses</b>	<b>1,491.46</b>	<b>116.48</b>	<b>1,374.98</b>	<b>1180.4%</b>
Selling Expenses	-	0.36	(0.36)	100.0%
Administrative Expenses	231.70	130.45	101.25	77.6%
Reversal of expected credit loss on financial assets	(16.17)	-	(16.17)	100%
<b>Profit (loss) from operation</b>	<b>1,275.93</b>	<b>(14.33)</b>	<b>1,290.26</b>	<b>9004.8%</b>
Gain (loss) on foreign exchange rate	42.63	(45.47)	88.09	-193.8%
Share of loss from investments in joint ventures	(0.34)	(0.14)	(0.20)	136.0%
<b>Profit (loss) before finance cost and income tax</b>	<b>1,318.22</b>	<b>(59.94)</b>	<b>1,378.16</b>	<b>2299.3%</b>
Finance cost	(79.49)	(123.61)	44.11	-35.7%
<b>Profit (loss) before income tax</b>	<b>1,238.73</b>	<b>(183.54)</b>	<b>1,422.28</b>	<b>774.9%</b>
Corporate Income Tax	5.56	(12.20)	17.76	-145.6%
<b>Profit (loss) for the period - continued operation</b>	<b>1,244.29</b>	<b>(195.74)</b>	<b>1,440.03</b>	<b>735.7%</b>
<b>Profit (loss) for the period - discontinued operation</b>	<b>(79.70)</b>	<b>83.71</b>	<b>(163.41)</b>	<b>-195.2%</b>
<b>Profit (loss) for the period</b>	<b>1,164.59</b>	<b>(112.03)</b>	<b>1,276.62</b>	<b>1139.5%</b>

**Total Revenue:**

Total revenue for 9-month period ended 30 September 2022 was 2,189.72 million baht which was significant increased from prior year at Baht 1,975.75 million or equivalent to 90.2% YoY. The increasing can be analysed separate by business unit as follow:

**Steel business:** Total revenue was 611.53 million Baht which mainly came from trading business expansion. The Group utilized the knowledge, expertise and experience of management by achieving sales volume from customers in Thailand and overseas totaling Baht 414.12 million. The improvement of steel business in terms of higher demand and billet price after the Covid 19 situation eased resulted in a customer placing a production order in the current period, resulting in additional revenue from OEM amounting to 227.79 million baht (9M 2021: no production).

**Renewable Energy business:**

**Sale of electricity:**

- a) Revenue from sale of electricity over the 1,000 locations of residential rooftop with capacity of 6.62 MWh, which continuously operated as expectation. The average revenue from sale electricity over the residential rooftop was approximate 38 -40 million baht for the period of 9-month end 30 September 2022 and 2021, respectively.
- b) Revenue from sale electricity – Private PPA: The Group reached COD for additional 12.28 MWh in September 2022 and recognized additional revenue from sale electricity for 4.06 million Baht in current period (recognized revenue from sale for 1 month).

**EPC:** The Group also provide alternative option to Customers who would like to invest in Solar Power System by themselves for the purpose of electricity expenses saving. The overall revenue from EPC service in current period was 36.02 million baht which was decreased from prior year was Baht 52.72 million due to the size and number of projects were decreased.

**Operating and Maintenance Service [O&M]:** The Group have been engaged as the operating and maintenance service provider for 4 solar power plants in Japan during April to July 2022. As a result, the Group recognized revenue for OM service 14.72 million Baht in current period.

**Cryptocurrency Mining business:**

The Group started to operate this business since 2Q2022 (June 2022) and the Group recognized revenue from mining service and revenue from the sale of inventories (cryptocurrencies) totaling Baht 30.2 million

**Gain on sale of investment and solar power plant:** The Group divestment and transfer 4 solar power plant in Japan according to the agreement during Q1 2022. The Group recognized gain on sale of investment and solar power plant total of Baht 1,425.28 million (YTD 2021: sold investment in subsidiary and transfer 2 solar power plants and recognized gain on sale at Baht 90.1 million).

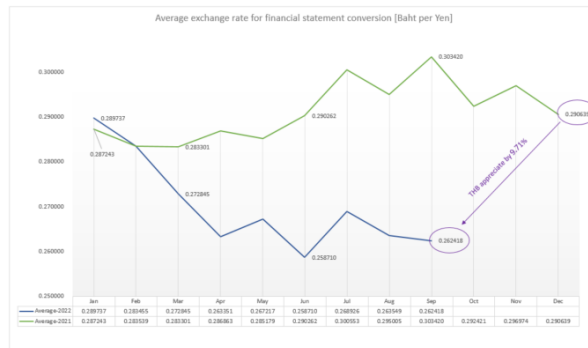
**Profit margin:**

The total profit margin in the current reporting period was Baht 1,471.84 million or 67.2%, an increase from Baht 109.8 million or 51.3% in the previous year. The increase was mainly due to the sale of investment in a subsidiaries and a solar power plants in Japan, which was considered as a normal operation and strategy to generate profit and diversify into different types of potentially profitable businesses.

**Administrative Expense**

Total administrative expenses increased by 101.25 million baht year-on-year. The increase mainly came from the energy business, which incurred financial advisory fees totaling 100.72 million baht charged for the successful sale of solar power plants in Japan in March 2022 and other direct expenses related to the transfer of 4 solar power plants in Japan.

**Gain on exchange rate:** The exchange gains are mainly from the loan liabilities of a foreign subsidiary, which are dominated in Japanese yen currency. Accounting rules require this loan to be translated into THB currency at the closing rate on September 30, 2022, and the THB currency appreciated against the JPY currency by 9.71%, resulting in an unrealized foreign exchange gain and decreased loan payable balance was recognized in current period.



**Reversal of expected credit loss**

In 2Q2022, the Group received payments from a customer amounting to Baht 182 million, in which allowance for expected credit losses totaling Baht 16.7 million were recognized in accordance with the accounting standard. Once the Group is able to collect the outstanding receivables, it was not necessary to leave the allowance in the financial statements.

**Finance cost**

Finance costs decreased by Baht 44.11 million due to the loan repayment to a financial institution in 1Q2022 and the early repayment of debentures in 2Q2022 totaling Baht 2,531 million. As a result, the Group saves more financing cost in the current period.

### 3. The Group Statement of Financial Position

Statement of Financial Position	30-Sep-22	31-Dec-21	Changes	
	Mb	Mb	Mb	%
Current Assets	2,328.62	7,697.22	(5,368.60)	-69.7%
Non-current Assets	2,366.55	2,201.77	164.78	7.5%
<b>Total Assets</b>	<b>4,695.17</b>	<b>9,898.99</b>	<b>(5,203.82)</b>	<b>-52.6%</b>
Current Liabilities	2,506.94	8,972.08	(6,465.14)	-72.1%
Non-current liabilities	231.26	110.92	120.34	108.5%
<b>Total liabilities</b>	<b>2,738.20</b>	<b>9,083.00</b>	<b>(6,344.80)</b>	<b>-69.9%</b>
<b>Total Equity</b>	<b>1,956.97</b>	<b>815.99</b>	<b>1,140.98</b>	<b>139.8%</b>
<b>Total Liabilities and Equity</b>	<b>4,695.17</b>	<b>9,898.99</b>	<b>(5,203.82)</b>	<b>-52.6%</b>

Key Financial Ratios		
- Current Ratio	0.93	0.86
- Debt to Equity	1.40	0.92
- Debt to Equity (adjusted)	0.68	10.35

(Debt to Equity (adjusted): Adjust total debt minus bank deposit pledged as collateral)

As at 30 September 2022, The Group's total assets and total liabilities at 4,695.17 and 2,738.20 million Baht, which were decreased from prior year amounting to 5,203.82 and 6,344.80 million Baht, respectively. The decreasing can be analyzed as follow:

- The Group divestment and solar power plants in Japan according to the strategy operation. As a result, total assets decreased from these transactions total of Baht 5,368.60 million
- The cashflow from sale of investment in subsidiaries and solar power plants had been utilized on
  - Loan repayment to domestic and oversea financial institutions and payment liabilities related to the solar power plants in Japan. Resulting of total current liabilities decreased by 7,286.24 million Baht
  - Deposit the remaining cash in JPY currency into fixed deposit in oversea financial institution and used them as collateral for credit facilities of the Group in Thailand. The credit facilities have been partially drawdown for CAPEX cost on private PPA project in Thailand.
  - Working capital for the Group of Company and support new investment for various type of business expansion
  - During the period, the Group have been supported by local financial institution on project finance of solar power plants project total of Baht 171 million.

As at September 31, 2022, total equity was 1,956.97 million Baht increased from prior year by 1,140 million baht which resulting from strategic divestment of solar power plants in Japan.



#### 4. Analysis of Statement of Cashflow

Summary Statement of Cashflow	Mb
Cash outflow from operating activity	(477.61)
Cash inflow from investing activity	1,903.02
Cash outflow from financing activity	(1,430.59)
Translation adjustment	(40.26)
Cash and cash equivalent decreased	(45.44)
Cash and cash equivalent beginning of period	107.05
Cash and cash equivalent beginning of period from discontinued operation	6.23
Cash and cash equivalent at the end of period	<u>67.84</u>

##### **Cash flow from operating activities**

During the current period, the Group had cash outflow from operating activities of Baht 477.61 million, comprising cash flows from operating activities of Baht 310.62 million and interest and income tax paid of Baht 166.99 million.

##### **Cash flow from investing activities**

The Group had cash inflow from investing activities of Baht 1,903.02 million, mainly comprised of cash proceed from sale of subsidiaries and solar power plants 3,300 million Baht, increasing of bank deposit for the purpose of bank collateral against loan facilities of the group at Baht 756.3 million and cash outflow for construction of solar power plant at 621.1 million Baht.

##### **Cash flow from financing activities**

The Group had net cash outflow from financing activities of Baht 1,430.6 million, resulting from repayment of loans from financial institutions, bond redemption and repayment of loans from third parties amount of Baht 2,678.2 million. The Group had cash inflow from short term loan of Baht 1,076 million and long-term loan amount of Baht 171 million.

Yours sincerely,

(Mr. Anavin Jiratomsiri)  
Chief Executive Committee