



บริษัท เอส.เอ.เอฟ. สเปเชียล สตีล จำกัด (มหาชน)
S.A.F. SPECIAL STEEL PUBLIC COMPANY LIMITED

สำนักงานใหญ่ เลขที่ 110 ซอยเทียนทะเล 24 ถนนบางขุนเทียน-ชายทะเล แขวงท่าข้าม เขตบางขุนเทียน กรุงเทพฯ

January 18, 2023

Subject: Management Discussion and Analysis for the Year Ended December 31, 2021

Attention: Directors and Managers

Stock Exchange of Thailand

S.A.F. Special Steel Public Company Limited (the “Company”) would like to clarify the operating results for the year ended December 31, 2021, with the following details:

Statements of Comprehensive Income

Statements of Comprehensive Income	For the Year Ended December 31,			
	2020		2021	
	Million baht	percent	Million baht	percent
Revenues				
Revenue from Sales and Services	180.17	98.82	213.84	99.58
Other Income	2.16	1.18	0.91	0.42
Total Revenues	182.32	100.00	214.75	100.00
Expenses				
Cost of Sales and Services	138.17	75.78	156.06	72.67
Distribution Costs	7.15	3.92	6.26	2.92
Administrative Expenses	28.23	15.48	25.85	12.04
Loss on Exchange Rates	-	-	3.75	1.74
Total Expenses	173.55	95.19	191.92	89.37
Profit from Operating Activities	8.77	4.81	22.83	10.63
Financial Costs	5.85	3.21	3.62	1.69
Profit Before Income Tax Expense	2.92	1.60	19.21	8.95



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Tax Expense	0.48	0.26	3.68	1.71
Profit for the Year	2.45	1.34	15.53	7.23

Table Showing Revenue from Sales and Services of the Company's Products Classified by Type

	For the Year Ended December 31,			
	2020		2021	
	Million baht	percent	Million baht	percent
Revenue from Sales:				
1) Revenue from Sales of Special Steel				
- For Mold	108.78	59.67	143.37	66.76
- For Engineering Machinery	40.11	22.00	45.23	21.06
Total Revenue from Sales of Special Steel	148.89	81.67	188.60	87.82
2) Others Sales Revenue ¹	22.58	12.38	14.77	6.88
Total Revenue from Sales	171.47	94.05	203.37	94.70
Revenue from Services :				
3) Revenue from Vacuum Hardening Services	8.69	4.77	10.47	4.88
Total Revenue from Sales and Services	180.17	98.82	213.84	99.58
Others Income ²	2.16	1.18	0.91	0.42
Total Revenues	182.32	100.00	214.75	100.00

Note

¹ Other sales revenue, e.g., sales revenue from metal cutting bandsaw blades, metal cutting bandsaw machines, molds, other equipment parts, etc.

² Other income consisted of gain on exchange rate, gain from disposal of assets, interest income and income from the sale of scrap metal, etc.

Revenue from Sales

Revenue from Sales consisted of sales revenue from special steel and revenue from other sales. The details are as follows:

1) Revenue from Sales of Special Steel

In 2021, the Company's primary income from the sale of special steel was equal to 188.60 million baht, accounting for 87.82 percent of the Company's total revenue, which could be divided into two main categories: 1) revenue from sales of special steel for molds, which had a proportion of revenue in 2021, accounting for 66.76 percent of total revenue, and 2) revenue from sales of special steel for engineering machinery, in 2021, the Company's revenue proportion was 21.06 percent of total revenue.

1.1 Revenue from Sales of Special Steel for Mold

For the year 2021, the Company's revenue from sales of special steel for molds was 143.37 million baht, an increase of 34.59 million baht or an increase of 31.80 percent from 2020. This was mainly due to the Company's sales volume of special steel for molds. An increase of 30.13 percent was mainly from customers in the automotive parts industry, followed by customers in the construction materials industry. There was a growing demand for special steel as a result of higher growth in exports of motor vehicles and parts, together with the expansion of investment in construction in Thailand, both investment in infrastructure and real estate projects in the country, including the export of construction materials, benefiting from the economic recovery after the COVID-19 pandemic. It was followed by an average steel selling price that increased by about 1.28 percent from the rise in special steel prices in the world market due to the global economic recovery, improving iron demand in many regions worldwide.

1.2 Revenue from Sales of Special Steel for Engineering Machinery

For the year 2021, the Company had revenue from sales of special steel for engineering machinery equal to 45.23 million baht, an increase of 5.11 million baht or 12.75 percent from 2020. It was due to an increase in average selling prices of about 13.49 percent due to the condition of special steel prices in the world market that increased while the sales volume slightly decreased by 0.66 percent.

2) Others Sales Revenue

Other sales revenue consisted mainly of sales of band saw blades, followed by the finished mold and tools and equipment parts such as cutting tools, spare parts, plastic injection cylinders, etc. For the year 2021, the Company's revenue from other sales was 14.77 million baht, a decrease of 7.81 million baht or a decrease of 34.57 percent from 2020, mainly due to a decrease in sales of band saw blades of 2.66 million baht and molds of 5.13 million baht or a decrease of 24.00 percent and 44.73 percent respectively. The reduction resulted from the COVID-19 pandemic in the customer's factory. As a result, the production of the customer's products decreased. The main customers in the molds were in the group of aluminum material manufacturers and auto parts manufacturers.

3) Revenue from Vacuum Hardening Services

For the year 2021, the Company had income from vacuum hardening services equal to 10.47 million baht, an increase of 1.78 million baht or an increase of 20.48 percent from 2020, mainly due to an increase in hardening volume of 17.07 percent from the year 2020. It was that the Company could find new customers, which was a customer in the automotive parts industry had increased.

Others Income

The Company's other income consisted of gain on foreign exchange. It was followed by gain from disposal of assets, interest income and income from scrap steel, etc. For the year 2021, the Company had other income equal to 0.91 million baht, a decrease of 1.25 million baht or a decrease of 57.85 percent from 2020. It was caused by the Company's profit from selling assets decreased by 0.58 million baht, and interest income decreased by 0.19 million baht.

Cost of Sales and Services and Gross Profit Margin

	For the Year End as of December 31
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	2020	2021
Revenue from Sales and Services (Million baht)	180.17	213.84
Cost of Sales and Services (Million baht)	138.17	156.06
Gross Profit (Million baht)	42.00	57.78
Proportion of Cost of Sales and Services (%)	76.69	72.98
Gross Profit Margin (%)	23.31	27.02

For the year 2021, the Company had the cost of sales and services equal to 156.06 million baht, an increase of 17.89 million baht or an increase of 12.95 percent from the year 2020, mainly due to the increase in the cost of raw materials for sale. This grew from the Company's sales and the COVID-19 pandemic that began to recover, and the cost per unit increased. In 2021, the Company's gross profit and gross profit margin increased. This was mainly due to an increase in revenue from sales and services. Due to the increasing demand for steel from many industries, the average selling price of steel increased. In addition, the Company's proportion of the cost of sales and services decreased from the proportion of sales of mold products that had to be outsourced for decreasing. For the group with low margins, it caused the Company to have a higher proportion of sales of products with a higher gross margin (special steel) increased.

Distribution Costs

For the year 2021, the Company had distribution costs equal to 6.26 million baht, a decrease of 0.89 million baht or a decrease of 12.43 percent from 2020, mainly due to a decrease in promotional and advertising expenses due to the budget approved by the Board of Directors for the year 2021, there was appropriate control of expenses in this section, and in the year 2021, the situation of the COVID-19 pandemic continued. Furthermore, there should have been an expense control plan to respond to such situations.

Administrative Expenses

For the year 2021, the Company had administrative expenses equal to 25.85 million baht, a decrease of 2.38 million baht or 8.43 percent from the year 2020 as a result of a decrease in executive compensations, employee expenses, land mortgage fees, office buildings, and factories.

Financial Cost

For the year 2021, the Company had financial costs equal to 3.62 million baht, a decrease of 2.23 million baht or a decrease of 38.10 percent from the year 2020 due to the Company's overdrafts and short-term loans from financial institutions having been reduced.

Net Profit

For 2021, the Company had a net profit equal to 15.53 million baht, an increase of 13.08 or 534.36 percent from 2020. It was because the Company had increased revenue and efficient cost control in 2021 by controlling administrative expenses and selling expenses. For example, decreasing in executives' salary, reducing hours and days of work for employees, the reduction of promotional and advertising costs, etc. Moreover, during that period, the Company had increased sales of high-gross profit products, such as special steel products for molds, which caused the Company to have a higher overall gross profit. In addition, there was a decrease in financial costs from debt repayment, resulting in the Company's net profit margin in 2021 being equal to 7.23 percent.

Statements of Financial Position

Total Assets

As of December 31, 2021, total assets were 297.33 million baht, a decrease of 5.49 million baht or 1.81 percent from 2020, mainly due to 1) a decrease in other current financial assets. (Fixed deposits with commercial banks) in the amount of 11.00 million baht because the Company used the collateral-free fixed deposits to repay



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debts and pay dividends to shareholders, and 2) the reduction of property, plant, and equipment because of depreciation.

Cash and Cash Equivalents

As of December 31, 2021, the Company had cash and cash equivalents equal to 2.51 million baht, an increase of 2.18 million baht from 2020. It was caused by the Company's net cash received from operating activities in the amount of 10.20 million baht, net cash received from investing activities in the amount of 11.25 million baht, net cash received used in financing activities in the amount of 19.27 million baht. As a result, the cash and cash equivalents at the beginning of the year amounted to 0.33 million baht.

Trade and Other Current Receivables

As of December 31, 2021, the Company had trade and other current receivables of 46.90 million baht, representing 15.77 percent of total assets. Details of trade and other receivables could be summarized as follows:

Overdue Period	December 31, 2020		December 31, 2021	
	Million baht	percent	Million baht	percent
Not Yet Due	27.42	66.71	32.02	69.54
Overdue				
Less than 1 Month	12.51	30.44	12.19	26.48
1 - 2 Months	0.86	2.09	1.42	3.09
2 - 3 Months	0.28	0.69	0.00	0.01
Over 3 Months	0.02	0.06	0.40	0.88
Total Trade Accounts Receivable	41.11	100.00	46.04	100.00
Less Allowance for Expected Credit Losses	(0.07)		(0.44)	
Total Trade Receivables - Net	41.03		45.60	



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Other Current Receivables	0.52		1.30	
Trade and Other Current Receivables	41.55		46.90	

The collection period depended on the customer's qualifications such as registered capital, financial statements, track records, payment history, etc. As of December 31, 2021, the Company had an average collection period of 74 days, which was during the credit term period of the Company, representing 69.54 percent of trade receivables before deducting an allowance for expected credit losses each year. For overdue debtors, those that were overdue less than one month are due from the timing of the customers' billing cycle, resulting in the repayment schedule from the customer to be postponed by one month. However, the Company regularly followed up on outstanding debtors by the Company's policy. With the efficient control and monitoring system, the Company had a small number of long overdue accounts receivable. The accounts receivable overdue for more than three months accounted for only 0.88 percent of the total accounts receivable before deducting the allowance for expected credit losses of each year.

The Company will prepare a summary of outstanding receivables by setting up an allowance for doubtful accounts according to the type of accounts receivable used to calculate the expected credit loss (Expected Credit Loss) of trade accounts receivable. To set up an allowance for doubtful accounts according to types of accounts receivable. As of December 31, 2021, the Company had receivable overdue for more than three months, equal to 0.40 million baht, which the Company continuously monitored and collected from receivable according to the established guidelines.

Other current receivables of the Company consisted of prepaid expenses, accrued interest and land deposits. As of December 31, 2021, the Company had other current receivables of 1.30 million baht, an increase of 0.79 million baht from 2020, mainly due to an increase in prepaid service fees. (taxes and financial advisory fees) in the amount of 0.67 million baht, and interest paid in advance (letter of guarantee fee) 0.21 million baht.

Inventories

The Company had inventories before deducting an allowance for declining in value of inventories as of December 31, 2021, equal to 112.61 million baht, most of which were in the form of raw materials representing 97.47 percent of inventories before deducting allowances. The Company had set an allowance for the value of inventories at the end of 2021 equal to 0.56 million baht, with an allowance for inventories increasing by 0.15 million baht compared to the year 2020 as a result of adding the NRV consideration from lowest prices in each period. As of December 31, 2021, the Company had net inventories equal to 112.05 million baht, an increase of 5.21 million baht or an increase of 4.88 percent from the year 2020 as a result of an increase in the number of raw materials. It was because the Company had ordered products to reserve raw materials to support demand for products that were expected to increase. The Company needed to order raw materials in advance to reserve because the order of special steel had to be ordered from foreign suppliers, in which took about 3-6 months to transport. Although the situation of the COVID-19 pandemic, there was a better trend in the second half of 2021, but the Company monitored cautiously in ordering products because the high price of raw materials. Therefore, the Company had yet to order products equivalent to the normal situation in 2019.

Other Current Financial Assets

Other current financial assets consisted of fixed deposits with commercial banks. As of December 31, 2021, the Company had 12-month fixed deposits with two commercial banks of 0.50 million baht. In 2021, the Company's other current financial assets decreased by 11.00 million baht from 2020 as a result of the Company using the collateral-free fixed deposit in 2020 to repay debt and pay dividends to shareholders.

Restricted Deposits with financial institution

Restricted deposits with financial institution consisted of savings deposits and fixed deposits. As of December 31, 2021, the Company had restricted bank deposits in the amount of 30.01 million baht, which were pledged as Collateral for Bank Overdrafts, Trust Receipt/Letters of Credit, Forward Contracts and Letters of

Guarantee. For 2021, the pledged bank deposits slightly increased from 2020 due to interest from savings deposits.

Property, Plant and Equipment

Property, plant, and equipment consist of land and land improvements, buildings and structures, office equipment, furniture and fixture, machinery and tools, and vehicles. As of December 31, 2021, the Company had property, plant, and equipment amounted to 97.02 million baht, a decrease of 5.29 million baht or a decrease of 5.17 percent from the year 2020, mainly due to the depreciation of assets.

Liabilities

The main liabilities of the Company were bank overdrafts and short-term loans from financial institutions, long-term loans from financial institutions and trade payables and other current payables. The Company's total liabilities as of December 31st, 2021, were 152.37 million baht, accounting for 82.17 percent of total liabilities as current liabilities and non-current liabilities 17.83 percent of total liabilities. For the year 2021, the Company's total liabilities decreased by 9.32 million baht or decreased by 5.76 percent, mainly due to a decrease in bank overdrafts and short-term loans from financial institutions in the amount of 24.33 million baht. Trade and other current payables decreased by 8.08 million baht, while long-term loans from financial institutions increased by 23.07 million baht.

Bank Overdrafts and Short-Term Loans from Financial Institutions

As of December 31st, 2021, the Company had bank overdrafts and short-term loans from financial institutions totaling 109.55 million baht, a decrease of 24.33 million baht or 18.17 percent from the year 2020 as a result of repayment overdrafts and promissory notes in the amount of 48.97 million baht and 4.05 million baht, respectively, while the use of trust receipts increased in the amount of 28.69 million baht due to increasing in import special steel.



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Trade and Other Current Payables

As of December 31, 2021, the Company had trade and other current payables equal to 6.34 million baht, divided into trade payables equal to 5.44 million baht and other current payables equal to 0.90 million baht. For the year 2021, the Company had a decrease in trade payables of 8.48 million baht from 2020, mainly due to the decrease in special steel orders during the year. The Company monitored cautiously in ordering products because the high price of raw materials. Therefore, the Company had not ordered products equivalent to the normal situation. As for other current payables, an increase of 0.40 million baht resulted from an increase in accrued consulting fees of 0.37 million baht, which was a consulting fee for preparing to be listed on the mai.

Long-Term Loans from Financial Institutions

As of December 31st, 2021, the Company had long-term loans from financial institutions totaling 24.90 million baht. For the year 2021, the Company had long-term loans from financial institutions increased from entering into a loan agreement with a commercial bank under the Soft Loan program of the Bank of Thailand to help and rehabilitate the company affected by the outbreak of COVID-19 in the amount of 24.00 million baht to be used as working capital within the Company. The repayment period under the contract was within five years.

Lease Liabilities

As of December 31st, 2021, the Company had total lease liabilities of 1.81 million baht, a decrease of 1.19 million baht, mainly due to the payment of 1.81 million baht, which was partially offset by the interest of 0.22 million baht. Portions due within one year and over one year were equal to 1.00 million baht and 0.80 million baht, or 55.46 percent and 44.54 percent, respectively.

Shareholders' Equity



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The Company's shareholders' equity as of December 31, 2021, was 144.96 million baht, an increase of 3.83 million baht from the year 2020 as a result of net profits in the amount of 15.53 million baht. However, during the year, the Company paid dividends of 11.70 million baht, resulting in a slightly increase in the shareholders' equity at the end of 2021.

In regard to the Annual General Meeting of Shareholders for the year 2021 held on April 20, 2021, the shareholders approved the dividend payment for 2020 from the operating results in 2020 and the retained earnings of the Company to shareholders at the rate of 10.00 Baht per share, amounting to 9.00 million baht, with cash dividend payment. The Company had already paid dividends to shareholders between 19 - 25 May 2021 and approved the allocation of profit as a legal reserve in the amount of 0.48 million baht.

According to the Board of Directors Meeting No. 4/2021 held on September 10, 2021, the Board of Directors approved the interim dividend payment for the year 2021 from the Company's retained earnings to the Company's shareholders at the rate of 3.00 Baht per share, totaling 2.70 million baht, with cash dividend payment. Accordingly, the Company paid dividends to shareholders on September 27, 2021, and approved the allocation of profit as a legal reserve of 0.15 million baht.



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Please be informed accordingly.

Yours sincerely,

(Miss Leena Ariyadejwanich)

Chief Financial Officer

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