

KERRY EXPRESS (THAILAND) PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS FY2022

2022 HIGHLIGHTS

- FY2022 was marred with challenges, first with the onset of the unexpected Russian-Ukraine conflict, central banks globally raising interests rates to curb inflation and the unexpected slowdown of the Chinese economy led by the strict Covid-Zero policy. These events have brought significant increases in operating cost particularly fuel expenses and funding cost. Consumer consumption also slowed globally.
- Such has also taken tolls on Thai E-commerce platforms and, thus, express delivery players alike especially as Covid recedes during mid-2022. Suppressed consumer demand and purchasing power, coupled with consumer's digression to physical shopping as a consequences of post-Covid country's reopening, led to the slowing of demand for the express industry. Market growth stalled, leading to fiercer price competition among existing industry players in exchange for volume.
- Following our core express strategies, KEX has grown its delivery volume by 18% YoY, however this was achieved at relatively high costs as we expand our operating capacity during Covid periods. As the market normalized following the re-opening, eCommerce growth has slowed down and we were not able to achieve unit cost efficiency as forecast. Coupled with rapid fuel price increase and supply and wage increases, our operating expenses rose 9.7% from 18,858.1 million THB in 2021 to 20,681.5 million THB in 2022. As a result of the increase in operating expenses, the company has incurred net loss attributable to owners of the Company of THB 2,830 million in 2022 compared with net profit of THB 47 million incurred during the previous year. This includes a one-time corporate expense of approximately THB 384.2 million incurred when the Company right-size the operation capacity in Q4 2022. Excluding such items, our normalised operating expenses grew by 7.6% YoY.
- In 2023, KEX will streamline our operations, execute strategic capex investment, and re-emphasize on service quality to defend our market share in Thailand.
- Our 2023 initiatives are well supported by our major shareholders, SF Express and KLN Logistics who are transferring their operating know-how and experience to us and our shareholders are committed to support us financially to deliver KEX's long term growth in Thailand

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FY2022 FINANCIAL PERFORMANCE

Table 1: Selected Indicators for Operational Results

(Unit: Million THB)	2021	2022	YoY % +/-
Parcel volume growth (%)	30%	18%	
Sales and services income	18,817.8	17,003.0	-9.6%
Cost of sales and services	(17,478.5)	(18,685.1)	6.9%
Gross profit	1,339.3	(1,682.1)	-225.6%
Selling and administrative expenses	(1,379.6)	(1,996.4)	44.7%
EBITDA	2,456.1	(1,073.7)	-143.7%
Normalised* EBITDA		(689.5)	
EBIT	114.0	(3,536.5)	-3,203.3%
Normalised* EBIT		(3,152.3)	
Net profit attributable to the owners of the company	46.9	(2,829.8)	-6,131.5%
Normalised* Net profit attributable to the owners of the company		(2,522.5)	
EPS (THB/Share)	0.027	(1.624)	-6,114.6%
Gross Profit Margin (%)	7.1%	-9.9%	
EBITDA Margin (%)	13.1%	-6.3%	
EBIT Margin (%)	0.6%	-20.8%	
Net Profit Margin (%)	0.2%	-16.6%	

Remark: As shown in financial statement, excluding minority interests

* Excluding one-off expenses

Figure 1: Revenue Contribution by Segment



- KEX has continued to execute its core express strategy during FY2022, driving its delivery volume up 18% YoY on the backdrop of lackluster economic condition and fierce competition. Despite the volume increase, the company reported sales and service income of THB 17,003.0 million, declining by 9.6% from THB 18,817.8 million in 2021. The drop in revenue per parcel came due to lower delivery prices and a cost efficiency plan was not enough to compensate the loss of margin.
- The company's cost of sales and services totaled THB 18,685.1 million, rising by 6.9% YoY. The rise in domestic retail diesel price (22.5% YoY) as well as tight labour market in several regions across the country have put challenges and hindered our cost efficiency implementation during the year. Selling and administrative expenses (SG&A) also grew 44.7% YoY because of our core competency reinforcement, capacity ramp-up and business expansion since the beginning of the year. Unfortunately, compared with our initial plan, the speed of the reduction of our unit costs was not satisfactory due to both internal administration and external macro factors. During the year's final quarter, the company conducted an extensive cost-cutting review which includes (i) an aggressive cost reduction

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and redundancy elimination exercise, (ii) headcount structure revamp, (iii) closures of non-performing sites and locations and (iv) operating process renewal. These partly contribute to certain one-off expenses totaling THB 384.2 million during FY2022, which include severance payments and facility closure expenses among others.

- KEX will put a high priority on profitability improvement in FY2023, with emphasis on service quality. We will continue to right-size our operation through improving our automation ratio to achieve the target cost efficiency and improve our revenue mix.

FINANCIAL POSITION AND LIQUIDITY

Table 3: Assets Breakdown

(Unit: Million THB)	2021	2022	YoY % +/- (-)
Cash and investment in liquid financial assets	7,294.8	2,963.1	-59.4%
Trade and other receivables	1,612.7	1,852.3	14.9%
Plant and equipment	2,244.2	2,490.1	11.0%
Right-of-use assets	4,897.1	2,903.4	-40.7%
Other Assets	996.7	1,884.3	89.0%
Total Assets	17,045.6	12,093.2	-29.1%

Table 4: Liabilities and Shareholders' Equity

(Unit: Million THB)	2021	2022	YoY % +/- (-)
Trade and other payables	1,977.1	1,941.5	-1.8%
Cash on delivery payable	723.7	568.3	-21.5%
Lease liabilities	2,256.1	945.5	-58.1%
Other Liabilities	269.8	328.0	21.6%
Total Liabilities	7,728.7	5,595.5	-27.6%
Total Shareholders' Equity	9,316.9	6,497.7	-30.3%
Total Liabilities and Equity	17,045.5	12,093.3	-29.1%

- Our cash and investment in liquid financial assets went down 59.4% to THB 2,963.1 million at the end of December 2022, mainly as a result of depleting operating cash flow and lease liability payments. Following our core business strategy under the current macroeconomic conditions and outlook, KEX will be strategic with our investment plans and cash flow management. Non-core projects that do not contribute to KEX's immediate benefit and improved earnings will be less prioritised at the moment.
- Right of use assets and lease liabilities decreased 40.7% and 58.1% respectively as a result of declining contract lives per existing lease agreements and lease cancellation associated with our LEAN programme.

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KEY FINANCIAL RATIOS

Table 5: Key Financial Ratios

		2021	2022
Liquidity ratios			
Current ratio ⁽¹⁾	(times)	1.35	1.00
Quick ratio ⁽²⁾	(times)	1.30	0.95
Cash flow liquidity ratio ⁽³⁾	(times)	0.47	-0.26
Accounts receivable turnover ⁽⁴⁾	(times)	17.40	13.86
Average collection period ⁽⁵⁾	(days)	20.98	26.34
Accounts payable turnover ⁽⁶⁾	(times)	23.97	18.29
Average payment period ⁽⁷⁾	(days)	15.23	19.96
Cash cycle ⁽⁸⁾	(days)	5.75	6.38
Profitability ratios			
Gross profit margin ⁽⁹⁾	(%)	7.12	-9.89
Net profit margin ⁽¹⁰⁾	(%)	0.25	-16.64
Return on equity ⁽¹¹⁾	(%)	0.47	-35.79
Efficiency ratios			
Return to total assets ⁽¹²⁾	(%)	0.26	-19.42
Total assets turnover ⁽¹³⁾	(times)	1.03	1.17
Financial policy ratios			
Total liabilities to equity ratio ⁽¹⁴⁾	(times)	0.83	0.86
Interest-bearing debt to EBITDA ratio ⁽¹⁵⁾	(times)	1.94	N/A
Interest coverage ratio ⁽¹⁶⁾	(times)	25.36	N/A
Debt service coverage ratio ⁽¹⁷⁾	(times)	0.98	N/A

Remarks:

- (1) Current ratio = total current assets divided by total current liabilities
- (2) Quick ratio = sum of cash and cash equivalents, short-term investments and trade and other receivables, divided by total current liabilities
- (3) Cash flow liquidity ratio = net cash generated from operating activities divided by average total current liabilities
- (4) Accounts receivable turnover = sales and services income divided by average gross trade accounts receivable
- (5) Average collection period = 365 divided by accounts receivable turnover
- (6) Account payable turnover = cost of sales and service divided by average trade account payable
- (7) Average payment period = 365 divided by accounts payable turnover
- (8) Cash cycle = the difference between the average collection period and the average payment period
- (9) Gross profit margin = gross profit divided by sales and services income
- (10) Net profit margin = profit (loss) attributable to the owners of the company divided by sales and services income
- (11) Return on equity = profit (loss) for the period divided by average total equity
- (12) Return to total assets = profit (loss) for the period divided by average total assets
- (13) Total assets turnover = sales and services income divided by average total assets
- (14) Total liabilities to equity ratio = total liabilities divided by total equity
- (15) Interest-bearing debt to EBITDA ratio = total interest-bearing debt and lease liabilities divided by EBITDA
- (16) Interest coverage ratio = EBITDA divided by interest expense
- (17) Debt service coverage ratio = EBITDA divided by the sum of the current portion of short-term loan obligation, lease liabilities due within one year and finance cost

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