

At TIGER 004/2023

10 May 2023

Subject: Management Discussion and Analysis for the three-month period ended 31 March 2023

To: Managing Director, the Stock Exchange of Thailand

Please find management discussion and analysis for the three-month period ended 31 March 2023 of Thai Enger Holding Public Company Limited (“the Company”) as the following details:

The Consolidated Financial Statements for three month period ended 31 March 2023 and 2022;

Million Baht	Q1 2022	%	Q1 2023	%	Inc/(Dec)	%
Revenues from sales and services	138.47	100.00%	171.74	100.00%	33.28	24.03%
Cost of sales and services	123.01	88.84%	154.97	90.23%	31.96	25.98%
Gross profit	15.46	11.16%	16.77	9.76%	1.32	8.51%
Selling expenses	0.73	0.53%	0.94	0.55%	0.21	28.90%
Administrative expenses	11.19	8.08%	11.96	6.96%	0.77	6.87%
Profit from operation	3.54	2.56%	3.88	2.25%	0.34	9.49%
Other income	0.61	0.44%	0.61	0.36%	0.00	0.00%
Profit before interests and taxes	4.15	3.00%	4.49	2.61%	0.34	8.09%
Share of loss from associate	(1.22)	(0.88%)	(0.32)	(0.19%)	0.90	100.00%
Finance costs	(0.59)	(0.43%)	(0.34)	(0.20%)	0.25	(42.17%)
Income tax expense	(0.98)	(0.70%)	(1.08)	(0.63%)	(0.10)	10.72%
Net profit	1.37	0.99%	2.74	1.60%	1.38	100.91%

During the first quarter of 2023, Thailand economic situation , previously impacted severely by Covid-19 pandemic, has gradually 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. 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 price prices make a hugh surge in the production costs resulting in the fragile and weaken economic recovery of 2023 to be expected.

The construction industry outlook for the year 2023 is expected to slowly and gradually recovered throughout the year 2023 as evidence by the increasing number of projects that the Company participate in auctions and the construction backlogs in hand that increase continuously especially the project from private segment that significantly improved. Despite the positive outlook, the construction industry in 2023 still 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 first quarter of 2023, the revenues proportion between public and private sector was 76 to 24, however, due to the large government project at Uttaradit province acquired during the first quarter of 2023, the construction backlog proportion change significantly to 95 to 5.
- 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, medium and large size factories 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 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.
- 5) 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.
- 6) Between the second half of 2022 to the mid of 2023, 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 low-margin construction project.

Because of the situation and the mention strategies adopted, the operation performance for the year 2023 improve significantly in both revenue and net profit comparing to same period last year. For the first quarter of 2023, the Company begin construction of many new projects previously acquired on the end of 2022 with the numbers of projects on hand of 11 projects, much higher that those from the same period last year of 7 projects. The gross profit margin of the first quarter of 2023 decreases significantly from 11.16% previous year to 9.76% current period. The decrease is from the fierce competition and the elevated construction material price. Although the company's profit in the first quarter of 2023 increased from 1.37 million baht to 2.74 million baht, the profit is still much lower than that the company used to make before COVID-19. However, the company believe that it has passed the lowest point and the company's performance is showing a positive trend for the future. The company's construction backlog as at 31 March 2023 was all-time highest at THB 1,550 million which will be constructed and delivered to the openers between 2023-2025. 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 first quarter of 2023 equivalent to THB 171.74 million and THB 138.47 million respectively, increasing by THB 33.28 million or equivalent to 24.03% compared to that from last year. The increase is due to the increase in numbers of projects recognised during the first quarter of 2023 which was 11 projects, half of them was the new projects acquired during the second half of 2022. The number of projects on hand in 2023 was significantly higher than those of 7 projects from the same period last year.

The major construction projects recognized in the first quarter 2023 were Ayuthaya water production facilities project with revenues recognized of THB 31 million, the Out Patient Department building at Nakorn Nayok with revenues recognized of THB 51 million, the improvement of Protharam water production facility project at Ratchaburi province with revenues recognized of THB 34 million and the construction of Bang-Na hi-end residence with revenues recognized of THB 23.03 million. Beside the revenues from construction segment, the revenues from construction supporting segment by TEG Aluminum Company and Cons Inno for the first quarter of 2023 were totally THB 5.30 million, (excluded inter company transaction.)

Cost of Sales and Services

For the first quarter of 2023, the Group has cost of sales and services equivalent to THB 154.97 million, increasing by THB 32.96 or 25.98% from the previous period, moving up more in proportion than increase in sale. The proportion of cost to sale for first quarter of 2023 is 90.23%, increased from that of 88.84% from the previous period.

Gross Profit

The Group's gross profit for the first quarter of 2023 was 16.77, increasing by THB 1.32 million, equivalent to 8.51% compared to the previous period. The gross margin was 9.76% decreasing from last year of 11.16%. The majority of revenues recognized during the first quarter of 2023 largely came from the project acquired during the COVID-19 pandemic, where there was high competition in the construction industry and the private sector's demand for construction contracts decreased significantly, causing company to choose to reduce its requested profit margins to its sub-standard minimum margin. The revenues recognized during the first quarter of 2023 mostly came from the government project with high volume but less gross margin than that of private sector. Moreover, during the first quarter of 2023, the construction materials, such as steels, cement and copper have experienced significant rates of price increases, making it impossible for the Company to manage its budget and saving the construction cost during the project completion.

Selling and Administrative expenses

For the first quarter of 2023, the Group 's selling and administrative expenses was THB 11.96, remaining unchanged from THB 11.19 million from the previous period due to the Company's effort of cost monitoring and expense control.

Net Profit

For the first quarter of 2023, the Group 's net profit was THB 2.74 million comparing to THB 1.37 from previous year, increasing by THB 1.38 million, equivalent to 100.91% due to the improvement of overall situation of construction industry after Covid-19 pandemic, resulting in an increase in the number of projects being acquired. However, the gross profit margins recognized by the Company are still low and have not yet stabilized. Even though the net profit of the company has increased significantly, it is still much lower than what the Company were able to achieve before the pandemic.

Yours sincerely,

(Mr.Viboon Pojanalai)

Chief Financial Officer