

At TIGER 005/2023

10 August 2023

Subject: Management Discussion and Analysis for the six-month period ended 30 June 2023

To: Managing Director, the Stock Exchange of Thailand

Please find management discussion and analysis for the six-month period ended 30 June 2023 of Thai Enger Holding Public Company Limited (“the Company”) as the following details:

The Consolidated Financial Statements for six month period ended 30 June 2023 and 2022:

Million Baht	Q2	%	Q2 2023	%	Inc/(Dec)	%
Revenues from sales and services	300.42	100.00%	444.90	100.00%	144.48	48.09%
Cost of sales and services	269.23	89.62%	407.41	91.57%	138.18	51.32%
Gross profit	31.18	10.38%	37.49	8.43%	6.30	20.22%
Selling expenses	1.44	0.48%	1.99	0.45%	0.56	38.58%
Administrative expenses	21.50	7.16%	23.36	5.25%	1.87	8.68%
Profit from operation	8.25	2.75%	12.13	2.73%	3.88	47.09%
Other income	0.61	0.20%	0.61	0.14%	0.00	0.00%
Profit before interests and taxes	8.86	2.95%	12.74	2.86%	3.88	43.83%
Share of loss from associate	(0.41)	(0.14%)	0.08	0.02%	0.49	100.00%
Impairment loss on financial assets		0.00%	(14.38)	(3.23%)	(14.38)	100.00%
Finance costs	(0.95)	(0.31%)	(0.75)	(0.17%)	0.20	(20.93%)
Income tax expense	(1.90)	(0.63%)	(0.06)	(0.01%)	1.84	(97.02%)
Net profit	5.61	1.87%	(2.36)	(0.53%)	(7.97)	(141.97%)

During the second 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 huge 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 second quarter of 2023, the revenues proportion between public and private sector was 85 to 15, however, due to the large government project at Uttaradit province acquired during the second quarter of 2023, the construction backlog proportion change significantly to 96 to 4.
- 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 second quarter of 2023 improves significantly in both revenue and gross profit comparing to same period last year. For the first half 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 12 projects, much higher than those from the same period last year of 7 projects. The gross profit for the second quarter of 2023 also increased from THB 31.18 to THB 37.49 million. Despite that, the gross profit margin for the current period decreased from 10.38% to 8.43%. The decrease is from the fierce competition and the elevated construction material price. Although the company's performance in the second quarter of 2023 increased significantly in both sale and gross profit, the Company suffer the net loss of THB 2.36 million in the second quarter of 2023 due to the large provision for doubtful account set aside against a certain customer. The Company recorded the allowance for doubtful account of THB 14.38 million on one property developer public company which currently suffered from a liquidity crunch. Despite the net loss, it is the result from one-time charge transaction, and the company believe that it has passed the lowest point and the company's performance is showing a positive trend in both sale and gross profit. The company's construction backlog as at 30 June 2023 was all-time highest at THB 1,284 million which will be constructed and delivered to the owner 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 second quarter of 2023 equivalent to THB 444.90 million and THB 300.42 million respectively, increasing by THB 144.48 million or equivalent to 48.09% compared to that from last year. The increase is due to the increase in numbers of projects recognised during the first half of 2023 which was 12 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 the Out Patient Department building at Nakorn Nayok with revenues recognized of THB 107 million, the improvement of Protharam water production facility project at Ratchaburi province with revenues recognized of THB 127 million, the construction of a water supply and drainage system for Pha-Chuk dam in Uttaradit province with revenue recognized of THB 61 million and the construction of Bang-Na hi-end residence with revenues recognized of THB 40.25 million. Beside the revenues from construction segment, the revenues from construction supporting segment by TEG Aluminum Company and Cons Inno for the second quarter of 2023 were totally THB 11.84 million, (excluded inter company transaction.)

Cost of Sales and Services

For the second quarter of 2023, the Group has cost of sales and services equivalent to THB 407.90 million, increasing by THB 138.18 or 51.32% from the previous period, moving up more in proportion than increase in sale. The proportion of cost to sale for second quarter of 2023 is 91.57%, increased from that of 89.62% from the previous period.

Gross Profit

The Group's gross profit for the second quarter of 2023 was THB 37.49 million, increase by THB 6.30 million, equivalent to 20.22% compared to the previous period. The gross margin was 8.43% decreasing from last year of 20.22%. The majority of revenues recognized during the second 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 second quarter of 2023 mostly came from the government project with high volume but less gross margin than that of private sector. Moreover, during the second 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 second quarter of 2023, the Group 's selling and administrative expenses was THB 25.36, remaining unchanged from THB 22.94 million from the previous period due to the Company's effort of cost monitoring and expense control.

Impairment Loss on Financial Assets

In the second quarter of the 2566, the company recognized a impairment loss on financial assets amounting to THB 14.38 million. This loss was attributed to the company's provision for doubtful accounts of a certain customer which is a major real estate development company experiencing financial difficulties. The company recorded total provision for doubtful accounts of THB 14.38 million, setting aside against trade receivables amounting to THB 5.2 million, unbilled completed works amounting to THB 8.73 million, and retention receivable amounting to THB 0.35 million.

Net Profit (Loss)

For the second quarter of 2023, the Group 's net loss was THB 2.36 million comparing to net profit of THB 5.61 from previous year, decreasing by THB 7.97 million, equivalent to 141.97% due to the significant impairment loss on financial assets set aside during the period of THB 14.38 million. If the impact of such loss mentioned above is excluded, the company will have a profit before interest and income tax for the first half of 2566 amounting to 12.74 million baht, representing an increase of 43.83 percent.

Yours sincerely,

(Mr.Viboon Pojanalai)

Chief Financial Officer