

10 August 2023

No. SGC 071/2023

To The President
The Stock Exchange of Thailand

Subject Management Discussion and Analysis

We, SG Capital Public Company Limited (“the company”), are pleased to provide you our management discussion and analysis for the 2nd quarter and 6-month ended 30 June 2023, as follows:

Overall Business Operations

In the 6-month period 2023, the overall situation of the Thai economy has been gradually recovering from the COVID-19 situation, which has impacted the overall economy for over 2 years. It has continuously affected the level of household debt, including the deteriorating quality of debt. From the 1st quarter 2023, the company has been affected by the situation, which has resulted in losses due to credit deterioration that occurred after the debt relief measures for debts affected by the COVID situation. These impacts have continued into the 2nd quarter 2023.

For the 2nd quarter 2023, the company continued to generate strong operating income with increase of THB 15 million or 2.81% from the same quarter of the previous year driven by the robust growth in interest income from hire-purchase contracts and loans of THB 9 million or 1.79% from the same quarter of the previous year. The total lending portfolio of THB 13,778 million divided into loans with vehicle registration as collateral totaling Baht 10,302 million or 75% of total portfolio, hire-purchase receivables totaling THB 3,022 million or 22% and others amount to THB 454 million or 3%. The company continued to focus on asset quality management and prudently set up provisions resulting in an increase in the expected credit loss. also, to accommodate the impact to loan quality from uneven economic recovery.

Performance Summary

Statement of income (Bt mn)	2Q2022	2Q2023	%YoY	6M2022	6M2023	%YoY
Income						
Interest income from hire-purchase contracts and loans	526	535	2%	1,013	1,181	17%
Other income	10	16	60%	18	28	56%
Total Income	536	551	3%	1,031	1,209	17%
Expenses						
Service and administrative expenses	155	188	22%	305	364	20%
Profit from operating activities	381	363	(5%)	726	845	21%
Finance costs	(141)	(144)	2%	(255)	(301)	18%
Expected credit loss	(55)	(2,616)	4,656%	(97)	(3,397)	3,402%
Profit (Loss) before income tax expense	186	(2,397)	(1,389%)	374	(2,854)	(863%)
Tax expenses	(35)	479	1,469%	(67)	567	946%
Profit (Loss) for the year	151	(1,919)	(1,367%)	307	(2,287)	(845%)

Revenues Analysis

Total income consists of interest income, including (1) Home & Commercial Appliances hire purchase, (2) Car for Cash loans (hire-purchase and loans with vehicle registration as collateral) and (3) Interest income from other loan receivables (Debt Consolidation loan and Click2Gold loan, and others). And Other income from fee and commission revenues.

For the 2nd quarter 2023, the company's total income was THB 551 million, an increase of THB 15 million or 2.81% from the same quarter of the previous year, due mainly to an increase of interest income from loan with vehicle registration as collateral. However, in terms of home & commercial appliances hire purchase, the company's income has decreased due to tightening credit release policies to reduce future credit risks.

For the 6-month period 2023, the company's total income was THB 1,209 million, an increase of THB 179 million or 17.33% from the same quarter of the previous year, due mainly to an increase of interest income from loan with vehicle registration as collateral.

Expenses Analysis

The company's main expenses are categorized into 3 main areas: service and administrative expenses, expected credit loss, and financial costs. The company analyzes its expenses as follows;

1. Service and administrative expenses

In the 2nd quarter 2023, the company's service and administrative expenses were THB 188 million, an increase of THB 33 million or 21.52% from the same quarter of the previous year. While service and administrative expenses for the 6-month period 2023 were THB 365 million, increased by THB 60 million or 19.63% up from the 6-month period 2022. The majority of the increased expenses in the 2nd quarter and 6-month period 2023 were related to loss impairment of asset foreclosed. As a result, the cost to income ratio stood at 34.11% in 2nd quarter 2023 and 30.15% in 6-month period 2023.

If excluding expense items related to foreclosed assets, operating expenses remained at an efficient level with cost-to-income ratio for the 6-month period 2023 at 26.86%, declining from the same period of the last year level of 28.96%, driven by prudent cost control.

2. Expected credit losses and non-performing loans write-offs.

For the 2nd quarter 2023, the company incurred a credit loss of THB 2,616 million, an increase of THB 2,561 million or an increase of 4,675.69% from the same quarter of the previous year. This was the result of writing off non-performing loans that the company had tracked and assessed to be uncollectible, net accounts receivable THB 917 million. The company also recorded additional provisions for expected credit losses to adequately and appropriately address the risks anticipated from increasing significant credit risk and deteriorating credit quality. This was a result of the termination of assistance programs due to the impact of the COVID-19 pandemic.

3. Financial Costs

The company's financial costs in the 2nd quarter 2023 amounted to THB 144 million, an increase of THB 4 million or 2.52% from the same quarter of the previous year. For the financial costs in the 6-months period 2023, it amounted to THB 301 million, an increase of THB 46 million or 17.95% from the same period of the previous year. The financial costs arose mainly from loans that the Company received from Singer Thailand Public Company Limited ("Parent Company").

Net Loss

The company incurred a net loss of THB 1,919 million in the 2nd quarter 2023, a decrease of THB 2,070 million or 1,367.45% from the same quarter of the previous year. Meanwhile, net loss for the 6-month period 2023 was THB 2,287 million, a decrease of THB 2,594 million or 845.14% over the same period of the previous year. It should be noted that the majority of this loss was attributed to credit losses resulting from the termination of assistance programs debts affected by the COVID situation.

Statement of Financial Position Analysis

The company has a statement of financial position, which the Company's auditor reviewed, the summary was as follows;

Statement of financial position (Bt mn)	As of Dec 31, 2022	As of Jun 30, 2023	Increase (Decrease)	% Change
Assets				
Cash and cash equivalents	3,106	730	(2,376)	(76%)
Current portion of hire-purchase contract receivables	3,438	1,157	(2,281)	(66%)
Current portion of loan receivables	2,006	2,158	152	8%
Other current assets	119	244	125	106%
Total current assets	8,669	4,289	(4,380)	(51%)
Hire-purchase contract receivables	1,918	993	(925)	(48%)
Loan receivables	7,030	7,486	456	6%
Other non-current assets	166	751	585	352%
Total non-current assets	9,114	9,230	116	1%
Total assets	17,783	13,519	(4,264)	(24%)
Liabilities and equity				
Loan from financial institution	55	-	(55)	(100%)
Other Current liabilities	762	296	(466)	(61%)
Total current liabilities	817	296	(521)	(64%)
Long-term loans from parent company	11,173	10,073	(1,100)	(10%)
Long-term loan from financial institution	4	-	(4)	(100%)
Other non-current liabilities	38	45	7	19%
Total non-current liabilities	11,215	10,118	(1,097)	(10%)
Total liabilities	12,032	10,414	(1,618)	(13%)
Equity	5,751	3,105	(2,646)	(46%)

Assets

As of 30 June 2023, the company had total assets of THB 13,519 million, a decrease of 23.98% from the end of 2022. This decrease mainly resulted from repaying loans from the parent company, dividend payment and a reduction in the accounts receivable portfolio from the company's write-off non-performing loans and the estimated provision for credit losses as described in the section on the expected credit losses and non-performing loans write-offs. mentioned above. Meanwhile, as of 30 June 2023, the company had cash and cash equivalents of THB 730 million and a portfolio of net accounts receivable amounting to THB 11,794 million.

Liabilities

The total liabilities as of 30 June 2023 are equal to THB 10,414 million, decreased THB 1,618 million or 13.44% from the end of 2022. This was mainly from repayment loan from parent company.

Shareholders' Equity

The equity as of 30 June 2023, and 31 December 2022, was THB 3,105 million and THB 5,751 million, respectively. The decrease is at THB 2,647 million or 46.02% from the end of 2022. It is mainly due to a decrease in operational performance. Additionally, the company's book value per share is 0.95 baht, a decrease from the previous year.

The future of operations management:

The company is aware of the impact of the COVID situation on debts and has considered setting aside additional reserves to cover credit losses for borrowers who have ended their participation in the assistance program due to the impact of the COVID-19 virus. This is to minimize potential future impacts. Additionally, the company has improved and adjusted its business strategies and processes to be more stringent compared to previous management approaches. The company has a positive outlook on future operational performance due to the tightened credit release policy and considers the risk assessment for individual clients, as well as the implementation of more proactive follow-up processes.

Please be informed accordingly.

Sincerely yours,

Mr. Anothai Sritiapetch

Chief Executive Officer

Authorized to sign on behalf of the Company.