

CHOW.267/ 2023

14 November 2023

Subject : Management's Discussion and Analysis for the three-month and nine-month periods ended 30 September 2023

Attention : Committee and Manager, The Stock Exchange of Thailand

Refer to : The Regulation of the Stock Exchange of Thailand in regards with the preparation and submission of the financial Statements and reports on financial condition and results of operations of the Company Act 2001

Chow Steel Industries Public Company Limited ("the Company") would like to declare its operating results for the three-month and nine-month periods ended 30 September 2023 and statement of financial position as of 30 September 2023. The analysis topics are as follows.

1. Management Discussion & Analysis
2. Company performance analysis
  - 2.1 Analysis for the three-month period ended 30 September 2023
  - 2.2 Analysis for the six-month period ended 30 September 2023
3. Consolidated Statement of Financial Position analysis
4. Consolidated Statement of Cash Flows analysis

## 1. Management Discussion & Analysis

The overall business in Q3 2023 will continue to grow the Group on the basis of a strong operational base together with the development of equity through the restructuring of business activities in line with the strategic plans for the steel business and the alternative energy business. This is due to the fact that the Group has its strengths in the experience of the management team and personnel who have been in business for more than 20 years, the vision of the business plans and the transparent internal control system of corporate governance with verifiable standards. It also received the 11th NACC Integrity Awards from the NACC (both Chow Steel Industry Public Company Limited and Chow Energy Public Company Limited). In addition, the Group has passed the criteria for the establishment of a joint venture company to develop a solar power plant project in Thailand by the Group. The Company holds 51 percent of the shares in the joint venture company and the remaining 49 percent is held by a global fund (BlackRock), which is considered to be part of the Company's success to further build the alternative energy business base to grow steadily and sustainably and create benefits for the Company, and live with the Company forever. The development in other areas can be explained as follows:

**Steel Business:** In the third quarter, the company received orders for steel and received orders for the production of further customer products. As a result, the company recorded revenue from steel sales of 757 million baht in the current period, which is the highest revenue after the easing of the COVID-19 situation since the beginning of 2022. The company has a wide range of products and has obtained industry standards. This increases the ability to sell products to new customers and increase sales volume to old customers. This leads to additional gross profit in the current period.

### **Renewable Energy Business:**

**Sale of electricity [PPA]:** As of September 30, 2023, the company had installed solar power generation systems and sold a total of 31.3 MW DC. In addition, the Group has completed the expansion of its investment in the power generation plant and is now awaiting a COD (Waiting for approvals from relevant authorities) of not less than 6 MW DC. It is expected that the certificate will be granted progressively from Q4 2023, which will enable the Group to recognize additional revenue and profits during these periods. Currently, the Group also has secure projects with PPA contracts under construction of not less than 100 MW DC.

**Engineering, procurement, and construction [EPC]:** The Group has been commissioned by numerous companies, such as consumer goods manufacturers, cold stores, vending machine factories, etc., to install solar power systems (EPC) and provide operation and maintenance services. In addition, the company has received orders from existing customers to install solar systems in other factories (repeat orders), reflecting the excellent standards of system installation, care and troubleshooting (if any) that meet customers' expectations. As a result, the company has been able to increase its market share in EPC projects.

### **Sustainable Development: ESG**

The Group has started to apply the concept of Sustainable Organizational Development: Applying ESG to management and making responsibility for the environment, society and corporate governance transparent. The Company is convinced that organizational development based on the ESG concept will enable the Group to grow sustainably and coexist with society, rather than just doing business to bring returns to stakeholders. Implementing ESG awareness in the organization requires everyone to spend time and money to create a sense of responsibility for what the company wants to do to achieve the goal. The Group has started to set up an ESG work team to deal with each part of the Group's business activities, such as

studying the carbon footprint, participating in the care and support of the society around the factory, joining an anti-corruption organization, etc., and the company also plans to implement the international standard ISO 14001 (International Standard Organization 14001), which deals with environmental management systems, in 2024.

## 2 The Group Performance Analysis

### 2.1) Analysis for the 3-month period ended 30 September 2023

Financial Information - Consolidated Operating Results	For the three-month period ended				For the three-month period ended			
	3Q 2023	3Q 2022	Changes YoY		3Q 2023	2Q 2023	Changes QoQ	
	Mb	Mb	Mb	%	Mb	Mb	Mb	%
Sale and service income	1,123.73	149.90	973.84	649.7%	1,123.73	840.32	657.05	78.2%
Revenue from co-incorporate joint venture company	426.51	-	426.51	100.0%	426.51	-	426.51	100.0%
Cost of sale and service	(1,075.17)	(131.25)	(943.92)	719.2%	(1,075.17)	(793.70)	(649.66)	81.9%
<b>Profit margin</b>	<b>475.08</b>	<b>18.65</b>	<b>456.42</b>	<b>2447.2%</b>	<b>475.08</b>	<b>46.62</b>	<b>433.89</b>	<b>930.7%</b>
<b>% Profit margin</b>	<b>42.3%</b>	<b>12.4%</b>	<b>29.8%</b>		<b>42.3%</b>	<b>5.5%</b>	<b>33.5%</b>	
Other income	23.83	0.29	23.55	8262.8%	23.83	2.13	23.03	1081.4%
Gain on exchange rate, net	(7.70)	(18.53)	10.83	-58.4%	(7.70)	6.54	(14.86)	-227.2%
Selling and administrative expenses	(110.03)	(41.10)	(68.93)	167.7%	(110.03)	(34.84)	(87.85)	252.2%
<b>Profit from continued operation</b>	<b>381.18</b>	<b>(40.70)</b>	<b>421.87</b>	<b>1036.6%</b>	<b>381.18</b>	<b>20.45</b>	<b>354.22</b>	<b>1732.1%</b>
Share of loss from investments in joint ventures	(2.53)	(0.09)	(2.44)	2740.4%	(2.53)	(0.53)	(2.49)	467.9%
Finance cost	(20.47)	(13.95)	(6.51)	46.7%	(20.47)	(26.20)	7.23	-27.6%
Income tax	(7.57)	(1.68)	(5.89)	349.5%	(7.57)	(3.14)	(4.79)	152.4%
<b>Profit (loss) for the period from continued operation</b>	<b>350.61</b>	<b>(56.42)</b>	<b>407.04</b>	<b>721.4%</b>	<b>350.61</b>	<b>(9.42)</b>	<b>354.17</b>	<b>-3758.6%</b>
Loss after income tax from discontinued operation	-	-	-	0.0%	-	-	-	0.0%
<b>Profit (loss) for the period</b>	<b>350.61</b>	<b>(56.42)</b>	<b>0.41</b>	<b>721.4%</b>	<b>350.61</b>	<b>(9.42)</b>	<b>354.17</b>	<b>-3758.6%</b>
EPS (Baht/ share)	0.38	(0.06)	0.44		0.38	(0.01)	0.39	

Total revenue in Q3 2023 amounted to 1,550.24 million baht, which increased compared to the previous year, with the main increase being due to the following:

- **Revenue from steel business** There was an increase in sales of steel products compared to the previous year due to the increased demand for steel on the market. And the company itself is able to manufacture a wide range of products. This enables us to fulfill orders even better. In addition, the company received the most orders for OEM contract manufacturing in the current quarter, which increases additional revenue and profits from contract manufacturing.
- **Revenue from alternative energy business** was increased from previous year due to 2 reasons as follows:
  - Increasing revenue from electricity sales under PPA contracts to COD of 31.3 megawatts in current period while only 17.5 MWDC was recognized in compared period.
  - The company has a project to install an additional power generation system under the EPC contract, which is a repeat order from an industrial customer to install a new phase of the solar power system. It is also able to expand its services in the installation of power generation systems for customers in a variety of businesses. which has both

medium and small sizes. As a result, the Group has increased revenues and profits from EPC services in the current period compared to the previous year.

- The Group recognized net income in the current period from the establishment of joint venture companies with funds from BlackRock amounting to Baht 426.51 million to operate the solar rooftop business in Thailand, which is in line with the Group's strategic plan.

In September 2023, the Group changed the method of recognizing income and costs from the sale of electricity under PPA contracts from the previous recognition of income and costs in the consolidated financial statements to recognition as a 51% revenue share. The reason for this is that in August 2023, the Group reached an agreement with BlackRock Fund to invest in a 49% stake in the power generation and distribution business under a PPA agreement in Thailand. The Company believes that the participation of co-investors from top-tier funds will increase the opportunity to bring the Group's rooftop solar business to the international stage. This will have a positive impact on greater flexibility in business operations, both in terms of capital and the ability to tap new sources of credit with low financing costs. and promote the organization's good image and become known internationally.

**Gross profit and profit margin:** Total gross profit in the current period is reported at 475 million baht with a profit margin of 42.3%, an increase from the previous year's figure of 18.65 million baht (profit margin 12.4%). This is in line with the implementation of the strategic plan to attract co-investors by establishing a joint venture with BlackRock Funds to develop power plant projects in Thailand. In addition, revenue including electricity sales showed a higher number of megawatts than the same period last year, together with the guarantee period of COD for new PPA projects, which includes free maintenance for a certain period under the EPC agreement. Sales of steel products and contract manufacturing of products in the steel business have increased in all respects, resulting in higher gross profits and gross profit margins for the Group.

**Selling, general and administrative expenses** in the current period amounted to 110 million baht, which increased in line with each business expansion. Nature of the group of companies and costs related to legal advice on transactions involving the establishment of joint ventures with co-investors (BlackRock funds).

**Finance costs:** The Group's financial costs in the current quarter are mainly financial costs in connection with the project financing of the solar power plant and financial costs from working capital.

## 2.2) Analysis for the 9-month period ended 30 September 2023

Financial Information - Consolidated Operating Results	For the 9-month period ended			
	30 Sept 23	30 Sept 22	Changes	
	Mb	Mb	Mb	%
Sale and service income	2,430.74	754.68	1,676.06	222.1%
Revenue from co-incorporate joint venture company	426.51	1,425.28	(998.77)	-70.1%
Cost of sale and service	(2,294.77)	(705.76)	(1,589.01)	225.1%
<b>Profit margin</b>	<b>562.48</b>	<b>1,474.20</b>	<b>(911.72)</b>	<b>-61.8%</b>
<b>% Profit margin</b>	<b>19.7%</b>	<b>67.6%</b>	<b>-47.9%</b>	
Other income	26.76	19.62	7.15	36.4%
Gain on exchange rate, net	5.99	42.63	(36.64)	-85.9%
Selling and administrative expenses	(166.65)	(218.02)	51.37	-23.6%
<b>Profit from continued operation</b>	<b>428.59</b>	<b>1,318.43</b>	<b>(889.84)</b>	<b>-67.5%</b>
Share of loss from investments in joint ventures	(3.10)	(0.34)	(2.76)	811.5%
Finance cost	(74.37)	(79.49)	5.13	-6.4%
Income tax	(13.49)	5.56	(19.06)	-342.5%
<b>Profit (loss) for the period from continued operation</b>	<b>337.63</b>	<b>1,244.16</b>	<b>(906.53)</b>	<b>-72.9%</b>
Loss after income tax from discontinued operation	-	(79.57)	79.57	-100.0%
<b>Profit (loss) for the period</b>	<b>337.63</b>	<b>1,164.59</b>	<b>(826.96)</b>	<b>-71.0%</b>
<b>EPS (Baht/ share)</b>	<b>0.37</b>	<b>1.26</b>	<b>(0.89)</b>	

YTD revenue amounted to 2,857.25 million baht, an increase from last year when income was 2,179.96 million baht, with gross profit amounting to 562.48 million baht or 19.7% margin (2022: gross profit 1,474.20 million baht, equivalent to 67.6% profit margin). The main changes can be analyzed as follows:

### **Steel Business:**

**Trading BU:** In the current period, total sales amounted to 1,519 million baht, compared to last year when total sales amounted to only 193 million baht. The expansion of the trading business is due to the company offering more types of steel-related products. It is a product that meets industry standards. Therefore, the company can support product orders for a wider range of customer groups. In addition, the company has experience in the steel business.

**OEM Service BU:** The company has received continuous production orders for a total of 9 months in the current period. This is due to the company's ability to produce a wider range of products. The Company recorded income from contract manufacturing of products under orders totaling Baht 627.9 million, while last year it only recorded income of Baht 227.8 million.

**Renewable Energy Business:**

**PPA:** As at September 30, 2023, the Group has solar power plants with a total capacity of 31.3 MWDC in operation in accordance with the electricity sales contract so that revenue from the sale of electricity in the amount of Baht 109.8 million was recognized in this period. Compared to the same period of the previous year, in which a total of 17.5 MWDC generation plant was in COD, income of 41.6 million baht was realized.

**EPC:** In the current period, the company received EPC work from a group of industrial customers who are the same customers. (expansion of installation of additional power generation systems) and new factory customers. The Company recognized income of Baht 173.4 million in the current period. The fact that the company has received repeat orders shows that the standard of EPC services and customer support is meeting customer expectations.

**Revenue from co-incorporate joint venture company:** Revenue from co-incorporate joint venture company: The Group has entered into an agreement with BlackRock Fund to participate in a 49% interest in power generation and distribution under a PPA agreement in Thailand. As a developer of power plants that have successfully sold more than 100 megawatts of power domestically and internationally, the Group is well equipped in terms of staff experience, reputation and history of doing business in Thailand. Therefore, the venture capitalists have recognized the value of the operating system. Group's experience and readiness Therefore, it was decided to co-invest with the Group. As a result, the Group has revenues from such transactions amounting to 426.5 million baht. The aim of the joint venture company is to develop projects in Thailand.

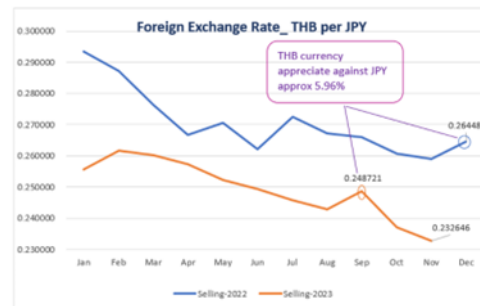
**Sale Mix Analysis:** The Group's sales have changed in the current period compared to the previous year. In the current period, the majority of income, around 53 percent, comes from the steel business, both from the sale of products and from the provision of contract manufacturing services, which continues to grow in the current period. A further 15 percent of income comes from the joint venture investment with Global Fund - BlackRock. The remaining 10 percent comes from the alternative energy business. Compared to last year, 65 percent of income comes from the strategic exit from power plant projects abroad. In addition, there is income from the steel business, both from product sales and production contracts, totaling 31 percent, and the remaining 4 percent is income from alternative energy companies in Thailand.



**Gross profit and profit margin:** Gross profit in the current period amounted to 562.48 million baht, or 19.7%, compared to the previous year's amount of 1,474.20 million baht, representing a gross profit margin of 67.6%, resulting from the achievement to establish a joint venture company with BlackRock Fund with profit recognized at 426 million baht. Compared to last year, profits making from strategic exit from overseas power plant projects were realized in total of 1,425.28 million baht. There was no overall difference in the average gross profit of the steel business and the alternative energy business from the previous year, which profit margin approximate 5.7% - 6.0%, but in term of Baht, the group had a total gross profit on both businesses 136 million baht, compared to the previous year which was 49 million baht. This is due to the expansion of all business segments i.e. trading of steel products, OEM service, PPA with COD Megawatts and new EPC contracts.

**Gain (loss) on foreign exchange rate :** the majority of the unrealized foreign exchange gain stems from the alternative energy business. In the current period, the Company recorded unrealized foreign exchange gain of 5.9 million baht, which is comparable to the third quarter of 2018. in 2022, the Company recognized unrealized foreign exchange gain of Baht 42.6 million, which in the previous year was mainly due to exchange rate fluctuation arising from the conversion of loans from yen-denominated subsidiaries into Baht currency by using the exchange rate at the end of the period to present the financial statements in Baht in accordance with accounting standards, with the exchange rates moving as follows.

From the chart, the value of Baht currency is appreciated from 31 December 2022 by 5.96%. As a result, the Company convert foreign currency loan which denominated in JPY currency with the lower rate in current period. As a result, the loan in THB currency (after converted from JPY to THB) was less than prior year resulting gain on forex recognized in current period.



**Selling and Administrative Expenses:** Selling, general and administrative expenses for the 9-month period of 2023 decreased by 51.37 million baht compared to the same period of 2022, which last year included expenses for financial and legal advisors for the list of overseas property sales.

**Finance Cost:** The majority of financial costs in the current period arise from bank loans for Project Finance of the solar power generation system under the PPA and debentures of the Group, which have repaid all principal and interest in May 2023.

### 3. The Group Statement of Financial Position as of September 30, 2023

Statement of Financial Position	30 Sept 23	31 Dec 22	Changes	
	Mb	Mb	Mb	%
<b>ASSETS</b>				
Current assets	1,418.48	2,382.10	(963.63)	-40.5%
Non-current assets	1,742.93	2,320.87	(577.94)	-24.9%
<b>Total Assets</b>	<b>3,161.41</b>	<b>4,702.97</b>	<b>(1,541.57)</b>	<b>-32.8%</b>
<b>Liabilities and Equity</b>				
<b>Liabilities</b>				
Current liabilities	899.53	2,536.35	(1,636.82)	-64.5%
Non-current liabilities	111.84	230.54	(118.70)	-51.5%
<b>Total Liabilities</b>	<b>1,011.38</b>	<b>2,766.90</b>	<b>(1,755.52)</b>	<b>-63.4%</b>
<b>Shareholders' equity</b>	<b>2,150.03</b>	<b>1,936.08</b>	<b>213.95</b>	<b>11.1%</b>
<b>Total Liabilities and Equity</b>	<b>3,161.41</b>	<b>4,702.97</b>	<b>(1,541.57)</b>	<b>-32.8%</b>

#### **Total Assets and Total Liabilities:**

As at September 30, 2023, the Group's total assets amounted to Baht 3,161.41 million, a decrease of Baht 1,541.57 million compared to 2022. The company's total liabilities amounted to Baht 1,011.38 million, a decrease of Baht 1,755.52 million compared to the previous year. The decrease in assets and liabilities is due to the Group's successful establishment of a new joint venture company with a global fund, BlackRock, which invested 49% of the ordinary shares of the domestic rooftop solar business. As a result of this agreement, the status of the investment was changed from a subsidiary to a joint venture company of the Group. Therefore, all assets and liabilities of the joint venture were excluded from the current period's balance sheet.



#### 4. Analysis of Cashflow Statement

Summary of statement of Cashflow: Consolidated	Mb
Net cash in-flows from operating activities	170.87
Net cash in-flows from investing activities	1,475.68
Net cash out-flows from financing activities	(1,408.78)
Decrease in translation adjustments	(117.02)
<b>Net decreased in cash and cash equivalents</b>	<b>120.75</b>
Cash and cash equivalent - beginning of the period	67.68
<b>Cash and cash equivalent - end of the period</b>	<b><u>188.43</u></b>

##### **Net cash in-flow from operating activities**

For the nine-month period ended September 30, 2023, the Group had a net cash flow from operating activities of Baht 170.87 million, of which Baht 248.31 million was received for operating activities during the year and net interest and income tax was paid total of 77.44 million baht

##### **Net cash in-flow from investing activities**

The Group had net cash from investments amounting to Baht 1,475.67 million, which consisted of cash from bank deposits used as collateral for loans amounting to Baht 1,259.76 million and used for land purchases. The proceeds from the sale of buildings and equipment amounted to Baht 220.51 million and proceeds from the new establishment a joint venture company for Solar Rooftop Business Group amounted to Baht 425.9 million.

##### **Net cash out-flow from financing activities**

The Group has repaid short-term loans from banks and unrelated businesses and debentures totaling 1,788.04 million baht. The Company received loans from banks for Project Finance in the amount of 474.6 million baht, respectively.

Yours sincerely,

(Mr. Anavin Jiratomsiri)

Chief Executive Officer