



## CHEMEMAN PUBLIC COMPANY LIMITED

### Management Discussion and Analysis

For three-month period ended 30 September 2023

#### *Business Overview*



*Chememan Public Company Limited (SET: CMAN) is one of the world's ten largest lime producers, with more than 1 million tons of annual production capacity. Lime is one of the world's oldest and most vital and versatile chemicals and is regularly used in various industries and production applications. With high chemical-grade limestone quarries in Thailand and Vietnam, modern lime production facilities in Thailand, Vietnam, and India, and a state-of-the-art distribution center in Australia, CMAN has successfully developed a highly diversified customer portfolio that focuses on high-value-added end users in its targeted industries, especially mining (alumina, gold, copper, nickel, lithium, rare earth), iron & steel, construction (lightweight concrete blocks), pulp & paper, precipitated calcium carbonate (PCC), chemicals & derivative chemicals, sugar, bioplastics, glass & bottles, feedmills, flue gas treatment, and waste & wastewater treatment. CMAN exports around 60% of its capacity across 30 countries in Asia, Australia, and Africa. In 2023, CMAN celebrates its 20th anniversary of operations. With clear business strategies and a team of experienced and dedicated professionals, CMAN plans to expand further in its next decade with a goal of 2 million tons of annual production capacity and strengthen its position as the leading lime company in the growing Asia-Pacific region.*





## Discussion and Analysis

CMAN's third quarter results were impacted by the global economic slowdown and typical seasonality of its core business. As the global economic slowdown reduced demand of many key commodities, some customers postponed their orders to the fourth quarter. Despite this lower demand, CMAN delivered a third-quarter performance with THB 769 million in revenues, THB 148 million in EBITDA and THB 14 million in net profits.

CMAN is currently operating under highly volatile business conditions. Amidst this volatility, CMAN continues to execute its long-term business strategies, including the development of target countries and customers to achieve a growing and well-diversified customer portfolio, continuous capacity management and improvement of operating efficiencies, high product quality standards and timely deliveries, and profit margin optimization by leveraging business partnerships.

### Third Quarter 2023 Performance

| <i>Unit: Million Baht,<br/>Except per share amounts</i> | 3Q23        | 2Q23 | 3Q22 | %QoQ   | %YoY   |
|---|-------------|------|------|--------|--------|
| Revenues  | <b>769</b>  | 856  | 960  | -10.2% | -19.9% |
| Net income (loss) attributable to CMAN                  | <b>14</b>   | 59   | 72   | -76.8% | -80.9% |
| Earnings (loss) per share attributable to CMAN          | <b>0.01</b> | 0.06 | 0.07 | -76.8% | -80.9% |
| Adjusted net income (loss) attributable to CMAN (*)     | <b>37</b>   | 108  | 177  | -65.6% | -77.8% |
| Adjusted earnings (loss) per share (*)                  | <b>0.04</b> | 0.11 | 0.18 | -65.6% | -77.8% |
| Adjusted EBITDA excluding special items (*)             | <b>174</b>  | 262  | 311  | -33.4% | -43.9% |

(\*) Excludes all significant non-cash items, such as unrealized foreign exchange gains/losses from translation adjustments and mark-to-market gains/losses from forward contracts

- Domestic Revenues:** Domestic revenues equaled THB 317 million, down 4.1% compared to the previous quarter as the Thai sugar industry completed its harvesting season. On the other hand, domestic revenues rose 6.0% compared to the third quarter of last year. This was driven by higher demand from a few industries, including building and construction, environment and agriculture.
- International Revenues:** International revenues equaled THB 380 million, down 16.1% and 34.6% compared to the previous quarter and the same quarter of last year, respectively. The drop in international revenues was driven by the decreased lime demand in several industries, particularly mining and pulp and paper. Various customers also requested to delay shipments to the fourth quarter.



- **Service Revenues:** Service revenues equaled THB 72 million, which was stable compared to THB 73 million in the previous quarter but down by 10.7% from the same quarter of last year. Service revenues are directly correlated to throughput volumes at Hope Valley Distribution Center, which services global mining companies based in Western Australia.
- **Cost of Goods Sold and Service:** CMAN shut down some lime kilns in both Thailand and Vietnam to do their planned major maintenance routines in the third quarter. As global energy prices and sales decreased, the cost of goods sold equaled THB 458 million, down 12.8% and 23.4% compared to the previous quarter and the same quarter of last year, respectively. The cost of services equaled THB 64 million, up 5.2% and down 19.8% compared to the previous quarter and the same quarter of last year, respectively. As a result, gross margins increased to 32.1%, compared to 31.6% in the previous quarter and 29.5% in the same quarter of last year.
- **Adjusted EBITDA:** Adjusted EBITDA equaled THB 174 million, down 43.9% and down 33.4% compared to the previous quarter and the same quarter of last year, respectively. Apart from lower sales, annual salary adjustments took effect in the third quarter. Other selling & administrative expenses remain under control.
- **Finance Costs:** Finance costs equaled THB 55 million, up 3.7% and 32.9% compared to the previous quarter and the same quarter of last year, respectively. Even though total interest-bearing debt decreased due to ongoing loan repayments, higher US Dollar and Thai Baht interest rates adversely impacted finance costs.
- **Net Profits Attributable to CMAN:** Consolidated net profits attributable to shareholders of CMAN were THB 14 million, or THB 0.01 per share, with a 1.8% net profit margin. Net profit margin decreased from 6.6% in the previous quarter primarily to unrealized exchange losses of THB 23 million mainly due to weakening USD/VND exchange rates. By removing all foreign exchange effects, net profits would have been THB 36 million, which was the same rate as previous quarter.
- **Cash:** CMAN ended the quarter with a balance of THB 100 million cash on hand. For the first nine months of 2023, cash flow from operations was THB 705 million. Cash flow for investing activities was THB (106) million, mainly due to solar farm projects, major maintenance costs, and improvement at Hope Valley Distribution Center. Cash flow from financing activities was THB (598) million, as CMAN repaid THB 443 million of long-term loans and leases year to date.
- **Assets:** Total assets as of 30 September 2023 were THB 6,459 million, a 4.6% decrease from the end of 2022, due to lower outstanding account receivables, inventories, and net-PPE after depreciation.
- **Liabilities:** Total liabilities decreased to THB 3,980 million, down 9.9% from the end of 2022, primarily due to long-term loan repayments.



## Financial Ratios

|                                 | 3Q23   | 2Q23   | 3Q22   |
|---------------------------------|--------|--------|--------|
| Gross Profit Margin             | 32.14% | 31.56% | 29.48% |
| Net Profit Margin               | 1.76%  | 6.59%  | 7.22%  |
| Return on Equity                | 2.32%  | 9.93%  | 12.75% |
| Debt to Equity                  | 1.65X  | 1.70X  | 1.95X  |
| Interest Bearing Debt to Equity | 1.42X  | 1.47X  | 1.69X  |

## 2023 Outlook

The business outlook remains cautious, as a result of knock-on effects from both new and prolonged geopolitical conflicts, lingering inflation concerns, volatile commodity prices, and the extent of the global economic slowdown. During the third quarter, CMAN shut down lime kilns in both Thailand and Vietnam for repairs, overhauls, and efficiency improvement before its historically peak season in the next two quarters.

CMAN's sales in the fourth quarter are expected to recover due to delayed export shipments from the third quarter and rising demand from various industries, such as several mining sectors, sugar and pulp and paper. Global energy prices have reduced, which will result in lower costs of goods and services. However, interest rates will remain high for longer than expected.

To minimize the risks of this volatile environment, CMAN will continue to optimize its cost structure and drive selective sales efforts at reasonable profit margins. At the same time, CMAN aims to grow and study product and capacity expansion opportunities in strategic countries, which should result in a larger business footprint and long-term competitive advantages in the fast-growing Asia Pacific region. CMAN continues to increase market penetration in targeted countries. For example, Indonesia and Western Australia have announced several significant mining projects, such as nickel, lithium, and rare earth, that use lime in their production processes. As these projects will achieve commercial operations between 2024-2026, CMAN has already started its business development efforts to expand its customer portfolio.

CMAN is also working on various initiatives to improve its financial position and to minimize foreign exchange risks. CMAN closely monitors cash flows to ensure that it can operate efficiently during this time of high-interest rates and high loan repayments. In the long term, CMAN is committed to a policy of sustainability development. After proven benefits from several pilot projects, CMAN plans to invest in more renewable energy including solar power capacity and electric vehicles, including both wheel loaders and trucks. Implementing sustainability action plans reduces operating costs and positively impacts the environment.