

At TIGER 006/2023

13 November 2023

Subject: Management Discussion and Analysis for the nine-month period ended 30 September 2023

To: Managing Director, the Stock Exchange of Thailand

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

The Consolidated Financial Statements for nine month period ended 30 September 2023 and 2022;

Million Baht	Q3 2022	%	Q3 2023	%	Inc/(Dec)	%
Revenues from sales and services	454.72	100.00	678.95	100.00	224.22	49.31%
Cost of sales and services	410.01	90.17%	635.18	93.55%	225.17	54.92%
Gross profit	44.71	9.83%	43.76	6.45%	(0.95)	(2.12%)
Selling expenses	2.25	0.49%	3.14	0.46%	0.89	39.41%
Administrative expenses	32.47	7.14%	34.97	5.15%	2.50	7.69%
Profit from operation	9.99	2.20%	5.66	0.83%	(4.33)	(43.37%)
Other income	1.26	0.28%	0.87	0.13%	(0.39)	(31.10%)
Profit before interests and taxes	11.25	2.47%	6.53	0.96%	(4.73)	(41.99%)
Share of gain (loss) from associate	0.11	0.02%	(0.58)	(0.09%)	(0.69)	100.00%
Impairment loss on financial assets	-	0.00%	(14.98)	(2.21%)	(14.98)	100.00%
Finance costs	(1.80)	(0.40%)	(1.26)	(0.19%)	0.54	(29.94%)
Income tax expense	(2.53)	(0.56%)	1.27	0.19%	3.80	(150.27%)
Net profit (loss)	7.04	1.55%	(9.02)	(1.33%)	(16.05)	(228.19%)

During the third 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 third 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 year 2023, the construction backlog proportion change significantly to 98 to 2.
- 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) In 2023, the company places great importance on the development of its employees within the organization. The main goal is to increase happiness at workplace, reduce employee turnover rates, and promote the growth and development of employees in terms of health, knowledge, skills, and career advancement
- 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 third quarter of 2023 improves significantly in term of revenue comparing to same period last year. For the third 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 13 projects, much higher than those from the same period last year of 7 projects. Despite the growth in turnover, the gross profit margin for the current period decreased significantly. While, gross profit for the current period decreased slightly from 44.71 million to 43.76 million, the gross margin, in the other hand, decreased significantly from 9.83% to 6.44% due to two reasons; 1) In the third quarter of the year 2023, the company completed a public sector construction project with actual project costs higher than the originally budgeted costs. This was a significant issue, mainly due to the additional construction costs the company had to bear to expedite the project's closure as per the schedule and reduce the risk of late penalties imposed by the government agency. 2) The impact of low initial profit-margin projects received during the COVID-19 period, coupled with intense competition in the market and rising construction material costs, resulted in a significant decrease in the initially estimated profit margin. As a result, the company experienced a net loss of 9.02 million baht during the same quarter in 2023 compared to a net profit of 7.04 million baht in the corresponding quarter of 2022. Beside the significant decrease in gross profit margin, the Company suffer the net loss of THB 9.02 million in the third 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 14.98 million (THB 14.38 million in the second quarter of 2023 and THB 0.60 million in the third quarter of 2023) 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 transactions, 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 September 2023 was all-time highest at THB 1,157 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 third quarter of 2023 equivalent to THB 678.95 million and THB 454.72 million respectively, increasing by THB 224.22 million or equivalent to 49.31% compared to that from last year. The increase is due to the increase in numbers of projects recognised during the third quarter of 2023 which was 13 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 third quarter 2023 were the Out Patient Department building at Nakorn Nayok with revenues recognized of THB 168 million, the improvement of Protharam water production facility project at Ratchaburi province with revenues recognized of THB 186 million, the construction of a water supply and drainage system for Pha-Chuk dam in Uttaradit province with revenue recognized of THB 116 million and the construction of Bang-Na hi-end residence with revenues recognized of THB 55 million. Beside the revenues from construction segment, the revenues from construction supporting segment by TEG Aluminum Company and Cons Inno for the third quarter of 2023 were totally THB 17.44 million, (excluded inter company transaction.)

Cost of Sales and Services

For the third quarter of 2023, the Group has cost of sales and services equivalent to THB 635.18 million, increasing by THB 225.67 or 51.04% from the previous period, moving up more in proportion than increase in sale. The proportion of cost to sale for third quarter of 2023 is 93.55%, increased from that of 90.17% from the previous period.

Gross Profit

The Group's gross profit for the third quarter of 2023 was THB 43.76 million, decrease by THB 0.95 million, equivalent to 2.12% compared to the previous period. The gross margin was 6.44% decreasing sharply from last year of 9.83% attributing to two main reasons: 1) In the third quarter of 2023, the company completed a public sector construction project with actual project costs exceeding the original budgeted costs significantly. This was a crucial issue due to the additional construction costs that the company had to incur to expedite the project's closure as per the schedule and reduce the risk of late penalties imposed by government agencies. The project's actual costs amounted to 31.49 million baht, higher than the budgeted cost of 26.34 baht, resulting in a substantial loss of 9.26%, significantly different from the initial estimate of a 9.09% profit margin. 2) Because the majority of the group's revenue in the third quarter of 2023 was generated during the COVID-19 situation when the construction contracting business faced intense competition, and demand for private sector construction projects significantly decreased. This prompted the company to choose lower initial profit margins for the projects than what they previously accepted. Most of the revenue in this quarter came from public sector projects with high project values but lower initial profit margins compared to private sector projects. Additionally, during the third quarter of 2023, construction material prices, such as steel, cement, and copper, continued to rise, leading to slightly higher expenses during project closures.

Selling and Administrative Expenses

For the third quarter of 2023, the Group 's selling and administrative expenses was THB 38.11 million, increaseing slightly from THB 34.72 million from the previous period due to the Company's effort of cost monitoring and expense control.

Impairment Loss on Financial Assets

In the third quarter of the 2566, the company recognized a impairment loss on financial assets amounting to THB 14.98 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 14.98 million recognizing in the second quarter of THB 14.38 million with the rest of THB 0.68 million fully recognizing in the third quarter, 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 0.95 million.

Net Profit (Loss)

In the third quarter of 2023, the group of companies reported a net loss of 9.02 million Baht compared to a profit of 7.04 million Baht in the same period of the previous year. This represents a decrease of 16.05 million Baht or a percentage decrease of 228.19%. The loss was primarily due to the company's decision to close a public sector project in the third quarter of 2023, which had incurred actual expenses exceeding the budget (cost overrun) by a significant amount, totaling 5.2 million Baht. Additionally, there were impacts from provisioning for doubtful debts amounting to 14.98 million Baht. If the impacts of such two events are excluded, the company is expected to have a profit before interest and income tax for the ninth month of 2023 of approximately 9.41 million Baht.

Yours sincerely,

(Mr.Viboon Pojanalai)

Chief Financial Officer