

At TIGER 007/2023

20 February 2024

Subject: Management Discussion and Analysis for the year ended 31 December 2023

To: Managing Director, the Stock Exchange of Thailand

Please find management discussion and analysis for the year ended 31 December 2023 of Thai Enger Holding Public Company Limited (“the Company”) as the following details:

**The Consolidated Financial Statements for the year ended 31 December 2023 and 2022;**

Million Baht	Q4 2022	%	Q4 2023	%	Inc/(Dec	%
Revenues from sales and services	666.04	100.00	949.22	100.00	283.18	42.52%
Cost of sales and services	606.74	91.10%	876.35	92.32%	269.61	44.44%
<b>Gross profit</b>	<b>59.30</b>	<b>8.90%</b>	<b>72.87</b>	<b>7.68%</b>	<b>13.57</b>	<b>22.88%</b>
Selling expenses	3.08	0.46%	4.13	0.44%	1.05	34.16%
Administrative expenses	46.68	7.01%	49.03	5.17%	2.35	5.03%
<b>Profit from operation</b>	<b>9.54</b>	<b>1.43%</b>	<b>19.70</b>	<b>2.08%</b>	<b>10.17</b>	<b>106.60%</b>
Other income	1.37	0.21%	0.91	0.10%	(0.45)	(33.13%)
<b>Profit before interests and taxes</b>	<b>10.90</b>	<b>1.64%</b>	<b>20.62</b>	<b>2.17%</b>	<b>9.71</b>	<b>89.08%</b>
Share of gain (loss) from associate	(0.22)	(0.03%)	0.87	0.09%	1.09	(503.18%)
Impairment loss on financial assets		0.00%	(14.38)	(1.52%)	(14.38)	100.00%
Finance costs	(2.54)	(0.38%)	(1.85)	(0.19%)	0.69	(27.19%)
Income tax expense	(2.66)	(0.40%)	(2.49)	(0.26%)	0.17	(6.48%)
<b>Net profit (loss)</b>	<b>5.49</b>	<b>0.82%</b>	<b>2.77</b>	<b>0.29%</b>	<b>(2.72)</b>	<b>(49.61%)</b>

During the year 2023, the impacts from the Covid-19 pandemic still severely affected the revenues and financial position of many customers and 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 2023-2024 to be expected.

The construction industry outlook for the year 2023 is expected to slowly and gradually recovered throughout the year 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 the lack of quality engineer personnel 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) The strategy has been changed from the original focus on construction in public sector projects during the COVID-19 period from 2021 to early 2023 to give more importance to private sector projects, especially from the second half of 2023. This shift aims to avoid risks associated with highly competitive pricing in public sector projects, decreasing demand for construction work, and the longer collection periods of public sector projects, which negatively impact the company's cash flow. However, due to the fact that private sector construction projects have not fully recovered this year, the company is considering prioritizing the selection of private sector projects with growth potential 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.
- 2) 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.
- 3) Starting in the year 2023, the company places great importance on the development of its personnel, including recruitment and onboarding of new employees with capabilities. The primary goal is to enhance job satisfaction, reduce employee turnover rates, and promote the growth and development of staff in terms of health, knowledge, skills, and career advancement. The aim is to improve the quality of service provided to customers, add value, and avoid price competition.
- 4) Under the high elevation of material price, the Company pay absolute attention to the construction cost control in order to prevent cost overrun by cautious and comprehensive project budgeting, prudent purchase planning, using the deposits for material purchase and the close communication with vendors.

- 5) Starting from the second half 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 mentioned strategies adopted, the operation performance for the year 2023 improves significantly in term of revenue. The revenues for the year 2023 increased significantly by 43% comparing to those from last year. For the year 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 last year of 7 projects. The Company entered into two additional large-scale projects in the year 2023. The gross profit in 2566 increased from Baht 59.30 million to Baht 72.87 million, reflecting a positive adjustment of Baht 13.57 million or a percentage increase of 22.88. However, the profit margin in 2566 was significantly lower than the previous year, decreasing from 8.90% to 7.68%. The decreases can be attributed to two factors; 1) In 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. Moreover, In the year 2023, there was 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 and another provision set aside for unrecovered withholding tax of THB 3.00 million. Although the company's operations in 2566 adjusted down to a profit of only 2.55 million Baht, this reduction was due to a one-time charge. The company still experienced positive revenue growth and considers itself to have passed the lowest point, with a promising trend in its future operations. As of December 31, 2566, the company had a record-high construction backlog of 1,157 million Baht, which is expected to be gradually constructed and delivered to customers during the period from 2567 to 2569. The detailed analysis of the operational results can be summarized as follows.

### **Revenue from Sales and Services**

The Group has revenue from sales and services for the year of 2023 and 2022 equivalent to THB 949.22 million and THB 666.04 million respectively, increasing by THB 283.18 million or equivalent to 42.52% compared to that from last year. The increase is due to the increase in numbers of projects recognised during the year 2023 which was 13 projects, half of them was the new projects acquired during the fourth quarter of 2022. The number of projects on hand in 2023 was significantly higher than those of 7 projects from the last year.

The major construction projects recognized in the year 2023 were the Out Patient Department building at Nakorn Nayok with revenues recognized of THB 253 million, the improvement of Protharam water production facility project at Ratchaburi province with revenues recognized of THB 219 million, the construction of a water supply and drainage system for Pha-Chuk dam in Uttaradit province with revenue recognized of THB 160 million and the construction of Bang-Na hi-end residence with revenues recognized of THB 65 million. Beside the revenues from construction segment, the revenues from construction supporting segment by TEG Aluminum Company and Cons Inno for the year 2023 were totally THB 20.84 million, (excluded inter company transaction.)

### **Cost of Sales and Services**

For the year 2023, the Group has cost of sales and services equivalent to THB 876.35 million, increasing by THB 269.61 or 44.44% from the previous year, moving up more in proportion than increase in sale. The proportion of cost to sale for the year 2023 is 92.35%, increased from that of 91.10% from the previous year.

### **Gross Profit**

The Group's gross profit for the year 2023 was THB 72.87 million, increase by THB 13.57 million, equivalent to 22.88% compared to the previous year. The gross margin was 7.68% decreasing slightly from last year of 8.90% 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 year 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 year came from public sector projects with high project values but lower initial profit margins compared to private sector projects. Additionally, during the year 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**

In the year 2566, the company's selling and administrative expenses increased slightly to 53.16 million Baht compared to 49.76 million Baht in the previous year. The main reason for the increase was primarily due to the provision for the un-refundable withholding taxes, amounting to THB 3.00 million. When excluding this specific item, the expenses in 2566 remained unchanged compared to 2565, signifying no significant difference.

**Impairment Loss on Financial Assets**

In the year 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 8.23 million, and retention receivable amounting to THB 0.95 million.

**Net Profit**

In the year 2566, the Companies reported a net profit of THB 2.77 million, compared to the previous year, where the profit was 5.49 million Baht. This represents a decrease of 2.72 million Baht or a percentage decrease of 49.61. The main reason for this decline was a one-time charge related to the provision for doubtful debts, amounting to 14.38 million Baht. If the impact of this one-time charge is excluded, the company would have a net profit of approximately 14.27 million Baht for the year.

Yours sincerely,

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(Mr.Viboon Pojanalai)

Chief Financial Officer