

At TIGER 007/2023

13 May 2024

Subject: Management Discussion and Analysis for the three-month period ended 31 March 2024

To: Managing Director, the Stock Exchange of Thailand

Please find management discussion and analysis for the three-month period ended 31 March 2024 of Thai Enger Holding Public Company Limited (“the Company”) as the following details:

**The Consolidated Financial Statements for the period ended 31 March 2024 and 2023:**

Million Baht	Q1 2023	%	Q1 2024	%	Inc/(Dec)	%
Revenues from sales and services	171.74	100.00	168.55	100.00	(3.20)	(1.86%)
Cost of sales and services	154.97	90.23%	154.82	91.86%	(0.15)	(0.10%)
<b>Gross profit</b>	<b>16.77</b>	<b>9.77%</b>	<b>13.72</b>	<b>8.14%</b>	<b>(3.05)</b>	<b>(18.18%)</b>
Selling expenses	0.94	0.55%	1.09	0.65%	0.15	16.28%
Administrative expenses	11.96	6.96%	12.37	7.34%	0.41	3.39%
<b>Profit from operation</b>	<b>3.88</b>	<b>2.26%</b>	<b>0.27</b>	<b>0.16%</b>	<b>(3.61)</b>	<b>(93.09%)</b>
Other income	0.61	0.36%	0.28	0.17%	(0.33)	(53.88%)
<b>Profit before interests and taxes</b>	<b>4.49</b>	<b>2.61%</b>	<b>0.55</b>	<b>0.33%</b>	<b>(3.94)</b>	<b>(87.75%)</b>
Share of loss from associate	(0.32)	(0.19%)	(0.62)	(0.37%)	(0.30)	91.64%
Finance costs	(0.34)	(0.20%)	(0.89)	(0.53%)	(0.55)	161.81%
Income tax expense	(1.08)	(0.63%)	(0.07)	(0.04%)	1.01	(93.83%)
<b>Net profit (loss)</b>	<b>2.74</b>	<b>1.60%</b>	<b>(1.03)</b>	<b>(0.61%)</b>	<b>(3.77)</b>	<b>(137.42%)</b>

In the year 2024, the construction industry continues to face challenges due to rising construction costs. These challenges stem from various factors, including the conflict between Russia and Ukraine, inflation affecting material costs, labor expenses, and energy costs. Additionally, fluctuating interest rates and economic uncertainty make it difficult to accurately estimate business outcomes for the year 2024. The economy is expected to recover slowly and gradually during this period.

In the overall construction contracting business in 2024, it is expected that the business will gradually recover, considering the increasing number of projects that companies are bidding for and the construction backlogs in hand that increase continuously especially the project from private segment that significantly improved. The construction contracting business still faces three major negative factors: 1) the issue of fluctuating and continuously increasing construction material prices, 2) the problem of shortages in both construction labor and quality engineering personnel, 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) The strategy has been changed from the original focus on construction in public sector projects during the COVID-19 period 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 hotel and resort project whose demand gradually came back after Covid , 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.
- 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.

In terms of the company's performance for the three-month period ending on March 31, 2024, the sales and revenue in the first quarter of 2024 slightly decreased from the same period in 2023 by 3.20 million baht or 1.86% due to the delay of revenue recognition during the transition period from completing and delivering final stage of old government projects to starting construction on new high-margin private projects. The company's gross profit margin in the first quarter of 2024 decreased from 16.77 million baht to 13.77 million baht, a decrease of 3.05 million baht or 18.18% compared to the same quarter in the previous year. The company's gross profit rate in the first quarter of 2024 decreased slightly from the previous year's 9.77% to 8.14% due to the majority portion of projects delivered during the period from government projects with lower gross profit margin and the impact of continuously increasing construction material prices and labor costs. Although the company's operations in the first quarter of 2024 adjusted down to the point of incurring a loss of approximately 1 million baht, the company still believes in the improving trend of operations, which is crucial for the future, considering the Construction Backlog as of March 31, 2024, was at a record high of 1,306 million baht. Furthermore, the average initial profit rate according to the budget of the backlog as of March 31, 2024, was at a rate of 11.23%, which increased compared to the average rate as of December 31, 2023, at 10.43%. 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 three-month period ended 31 March 2024 and 2023 equivalent to THB 168.55 million and THB 171.74 million respectively, decreasing slightly by THB 3.20 million or equivalent to 1.86% compared to that from last year. The decrease in revenue came from the company's strategy to accelerate the completion of several low-profit government projects to allocate manpower and resources for new projects, especially private projects that were acquired in the first quarter of 2024. This quarter marks a transition period from old projects to new ones, with several new projects starting in the first quarter of 2024, including 6 small and medium-sized private projects and 1 new government project, as of March 31, 2024. The company has up to 14 projects in progress in its backlog.

The major construction projects recognized in the first quarter of 2024 were the Out Patient Department building at Nakorn Nayok with revenues recognized of THB 40.98 million, the improvement of Protharam water production facility project at Ratchaburi province with revenues recognized of THB 39.06 million, the construction of a water supply and drainage system for Pha-Chuk dam in Uttaradit province with revenue recognized of THB 25.67 million and the construction of canal drainage at Bangban Bangsai with revenues recognized of THB 20.01 million. Beside the revenues from construction segment, the revenues from construction supporting segment by TEG Aluminum Company and Cons Inno for the first period of 2024 were totally THB 6.50 million, (excluded inter company transaction.)

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

For the first quarter of 2024, the Group has cost of sales and services equivalent to THB 154.82 million, decreasing by THB 0.15 million or 0.10% from the same period of previous year, moving down less in proportion than decrease in sale. The proportion of cost to sale for the first period of 2023 is 91.86%, increased from that of 90.23% from the previous year.

### **Gross Profit**

The gross profit for the three-month period in 2024 is 13.72 million baht, a slight decrease of 3.05 million baht or 18.18% compared to the same period in 2023. In 2023, the gross profit margin for the business group was 8.14%, a slight decrease from 9.77% in the previous year. This decrease can be attributed to two main reasons, 1) In the first quarter of 2024, the gross profit margin of 8.14% came from expediting the completion of old government projects with low gross profit margin, leading to increased in high revenue recognition under the percentage of completion for low-profit projects. Meanwhile, new private projects, which have higher profit margins, have not yet realized their full revenue potential. 2) Construction material prices and labor costs have been fluctuating and continuously increasing, leading to project closures being done at the budgeted level without recognizing additional profits as in the past.

### **Selling and Administrative Expenses**

In the first quarter of 2024, the company's selling and administrative expenses were 12.37 million baht, slightly higher than the 11.96 million baht in the same period of the previous year. The main reason for this growth is the increase in hiring, especially operational level engineers, to prepare for the higher volume of work in hand. As of March 31, 2024, the company had a total of 94 permanent employees, the highest compared to the same period of the previous year, which had only 71 employees.

**Net Profit**

In the first quarter of 2024, the group of companies incurred a net loss of 1.03 million baht, compared to a profit of 2.74 million baht in the same period of the previous year. This represents a decrease of 3.77 million baht or 137.42% in profitability. This decline is in line with the company's strategy to accelerate the completion of old projects to prepare for the significantly increased number of new projects in hand. Additionally, there were significant increases in expenses due to organizational expansion and the accelerated hiring of operational-level employees.

Yours sincerely,

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(Mr.Viboon Pojanalai)

Chief Financial Officer