

Management Discussion and Analysis for the 3rd Quarter 2019

Ended November 30, 2019

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the consolidated reviewed the 3rd quarter financial statements as of November 30, 2019 which were reviewed by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited. The operating performance is summarized as follows.

Overview

According to the Bank of Thailand and Office of the National Economic and Social Development Board data, the Thai economy in the third quarter of 2019 expanded by 2.4%, slightly increased from 2.3% in the second quarter of 2019, mainly driven by expansion of private consumption, government spending and tourism sector. Meanwhile, exports sector continued to contract caused by uncertainty in trade policies of US and China and global economic, the conflict in the Middle Eastern that impacted global oil price as well as the Baht's ongoing appreciation.

As of November 30, 2019, the Company's total cards reached 8.92 million cards, increased by 5% from the end of fiscal year 2018 (including 2.82 million credit cards, increased by 8% from the end of last year and 6.1 million member cards, increased by 3% from the end of last year). The Company has active customers more than 2 million IDs, mainly from Bangkok 31%, and in up-country 69%. Covering networks nationwide, the Company has 104 branches, 416 ATMs, and 6,543 dealer members to provide a quality of financial services to AEON cardholders. For overseas business in Cambodia, Myanmar and Laos, they have active customers more than 326,000 customers, increased by 37% from last year, and representing 11% of total Company customers.

Summary of Consolidated Financial Results

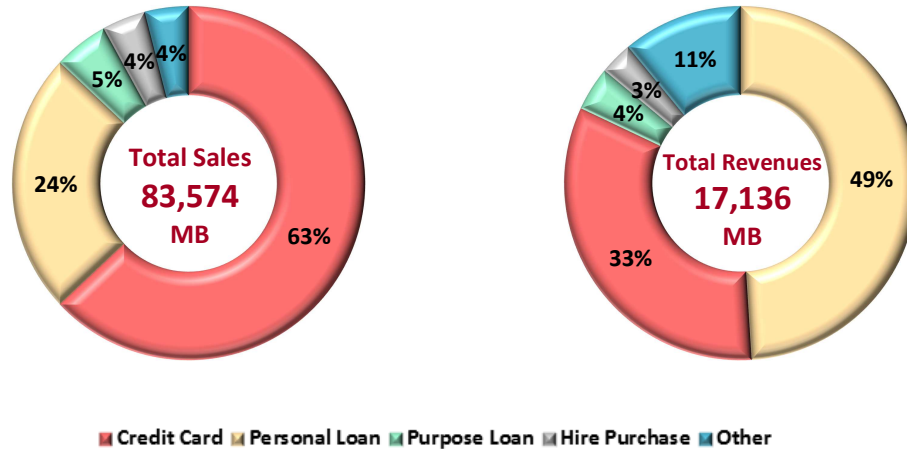
1. Operating Results

Profit and Loss Statement (Consolidated)	3Q/18	2Q/19	3Q/19	%QoQ	%YoY	9M18	9M19	%YoY
Unit : Million Baht								
Credit card income	1,914	1,887	1,897	1%	-1%	5,646	5,651	0%
Loan income	2,689	3,020	3,048	1%	13%	7,933	8,988	13%
Hire-purchase income	111	173	192	11%	73%	301	513	70%
Other income	511	584	841	44%	65%	1,456	1,984	36%
Total Revenues	5,225	5,664	5,979	6%	14%	15,335	17,136	12%
Operating and administrative expenses and others	2,146	2,293	2,353	3%	10%	6,435	6,928	8%
Bad debts and doubtful accounts	1,407	1,593	1,786	12%	27%	3,867	4,774	23%
Finance costs	538	557	549	-1%	2%	1,643	1,649	0%
Total Expenses	4,091	4,443	4,688	5%	15%	11,945	13,352	12%
Profit before tax income	1,136	1,219	1,284	5%	13%	3,395	3,774	11%
Income tax expenses	219	241	257	6%	17%	666	753	13%
Net profit for the period	901	942	991	5%	10%	2,690	2,920	9%
Earning Per Share (Baht per share)	3.60	3.77	3.96	5%	10%	10.76	11.68	9%

Revenues

For the first nine months of 2019, the total consolidated revenues were 17,136 million baht, showing an increase of 1,801 million baht or 12% y-y. In the third quarter of 2019, the Company's revenues were 5,979 million baht, showing an increase of 754 million baht or 14% y-y and 6% q-q. This was the result of continued growth in core business revenues that increased by 9% y-y, especially in personal loan and hire purchase products as well as continued growth from bad debt recovery by 33% y-y. The revenue from overseas subsidiaries grew by 60% y-y as a result of customers increase and expanding a financial product line. In addition, in the third quarter of 2019, the Company recorded the other incomes from gain on sales of written-off receivables at the amount of 248 million baht. Details of each business can be described as follows:

Revenue Structure 9M/2019



- Credit Card

For the first nine months of 2019, credit cards turnover accounted 63% of total turnovers with revenue of 5,651 million baht, an increase of 5 million baht, which was at the same level as last year. In the third quarter of 2019, credit card revenue was 1,897 million baht, a decrease of 17 million baht or 1% y-y but increased 1% q-q. However, the Company has focused on customer base expansion by increasing credit card benefits. For example, "AEON Gift 2020" campaign, AEON credit cardholders register via SMS or AEON Thai Mobile Application or website in order to redeem the premiums and vouchers, "AEON Shop Smart" campaign, and cash back campaign. In September 2019, the Company launched Visa Olympic Themed Card, which offering special privileges for sports and health lovers, including 4-time/month free access to leading fitness clubs, yoga classes, and Muay Thai gyms. In addition, the customers will receive up to 30% discount at participating fitness clubs, golf clubs and football pitches. For subsidiary in overseas, in the third quarter of 2019, AEON Specialized Bank (Cambodia) Plc had credit card revenue of 19 million baht, grew by 76% y-y.

- Loans

For the first nine months of 2019, loans shared 29% of total turnovers with the revenue of 8,988 million baht, an increase of 1,055 million baht or 13% y-y. In the third quarter of 2019, loans revenue was 3,048 million baht, an increase of 359 million baht or 13% y-y and 1% q-q. Thus, the Company provides more channels to facilitate financial services to customers and reduce Company's operation cost. Currently, the Cardless transactions at ATMs accounted for 19% of total personal loan sales. Moreover, loan income from AEON Microfinance (Myanmar) Company Limited in the third quarter of 2019 grew by 50% y-y and AEON Specialized Bank (Cambodia) Plc grew by 77% y-y.

- Hire Purchase

For the first nine months of 2019, motorcycle and used car hire purchase in Thailand and hire purchase of electrical appliances, mobile phone and others in oversea subsidiaries, with the revenues of 513 million baht, increasing by 212 million baht or 70% y-y and hire purchase sales from overseas business grew by 63% y-y, especially from business in Cambodia grew by 81% y-y. In the third quarter of 2019, the Company had hire purchase revenue of 192 million baht, an increase of 81 million baht or 73% y-y and 11% q-q drove by auto loans business. In addition, in the third quarter of 2019, the Company had hire purchase income from AEON Specialized Bank (Cambodia) Plc that increased 73% y-y and AEON Leasing Service (Lao) Company Limited that increased 3% y-y.

- Others

For the first nine months of 2019, other incomes were 1,984 million baht, showing an increase of 528 million baht or 36% y-y and represented 12% of total revenues. The increase was mainly from the continued growth of bad debt recovery that increased by 38% y-y caused by increased the internal legal staff to expedite the legal process. In the third quarter of 2019, other incomes were 841 million baht, increasing by 330 million baht or 65% y-y, due to bad debt recovery increased by 33% y-y and 2% q-q. In addition, in the third quarter of 2019, The Company has other incomes from bad debt selling at the amount of 248 million baht. Moreover, the income for the first nine months of 2019 of Company's subsidiaries in Thailand, the Company had commission income of 396 million baht, increasing by 5% y-y from AEON Insurance Service (Thailand) Co., Ltd. and collection service income of 202 million baht, increasing by 2% y-y from ACS Servicing (Thailand) Co., Ltd.

Expenses

The Company's expenses mainly consist of operating and administrative expenses, bad debt and doubtful accounts and finance cost. The Company had total consolidated expenses for the first nine months of 2019 of 13,352 million baht, an increase of 1,407 million baht or 12% y-y. For the third quarter of 2019, the consolidated expenses were 4,688 million baht, an increase of 598 million baht or 15% y-y. Details of expenses are shown as follows:

- Operating and Administrative Expenses

For the first nine months of 2019, the consolidated operating and administrative expense were 6,926 million baht, increasing by 8% y-y and represented 40% of total revenues. The increasing of expenses came from marketing expense which increased 14% y-y and personal expense increased 8% y-y. For the third quarter of 2019, the consolidated operating and administrative expenses were 2,353 million baht, increasing by 10% y-y. However, the Company was able to control the operating and administrative expenses representing 39% of total revenues, which was lower than previous quarter at 40% of total revenues. Considering the Company's separate financial statement, the operating and administrative expenses as a percentage of revenues represented 37% in the third quarter of 2019.

- Bad debt and Doubtful accounts

The consolidated bad debts and doubtful accounts for the first nine months of 2019 amounted to 4,774 million baht, increasing by 23% y-y. For the third quarter of 2019, the Company recorded bad debts and doubtful accounts of 1,786 million baht, increasing by 27% y-y. The increase of bad debt and doubtful accounts was mainly from continued growth of total portfolio and also negatively impacted from the economic slowdown and new regulations of debt collection.

- Finance Cost

The Company recorded consolidated finance cost for the first nine months of 2019 amount of 1,649 million baht, which was at the same level as last year. For the third quarter of 2019, the finance cost was 549 million baht, increasing by 2% y-y and slightly decreased by 1% q-q and accounted for 9% of total revenues. The average funding cost in the third quarter of 2019 was at 2.93% decreased from 3.06% last year, due to a reducing trend of market interest rate and interest rate paid to ATS Rabbit Special Purpose Vehicle Company Limited.

Net Profit

For the first nine months of 2019, consolidated total operating income was reported at 3,774 million baht, showing an increase of 380 million baht or 11% y-y. The Company recorded net profit of 2,920 million baht, showing an increase of 230 million baht or 9% y-y, and earning per share was 11.68 baht. For the third quarter of 2019, the Company had consolidated operating income of 1,284 million baht, an increase of 148 million baht or 13% y-y and 5% q-q. The Company reported net profit attributed to owners of the parent of 991 million baht, an increase of 90 million baht or 10% y-y, 5% q-q and earning per share was 3.96 baht. The net profit in the third quarter of 2019 increased mainly from an increase in core business revenues, continued growth of bad debt recovery and total portfolio and a strong growth of both domestic and overseas subsidiaries. In addition, the Company efficiently managed the selling, general and administrative expense and funding cost.

2. Financial Status

Statement of Financial Position	February 28, 2019	November 30, 2019	Change
Unit : Million Baht			%YoY
Accounts Receivable	82,512	89,826	9%
Total Assets	87,121	94,547	9%
Total Borrowing	63,742	68,467	7%
Total Liabilities	68,733	74,270	8%
Total Equities	18,388	20,277	10%
ROE	20.8%	20.5%	-1%
ROA	4.2%	4.3%	2%
D/E Ratio	3.8	3.7	-3%

Total Assets

As of November 30, 2019, consolidated total assets were 94,547 million baht, an increase of 7,426 million baht or 9% from 87,122 million baht as of February 28, 2019. The main assets were attributed to the portfolio of net accounts receivable which shared 91% of total assets.

- Accounts Receivable

As of November 30, 2019, the Company has gross accounts receivable of 89,826 million baht (both current assets and non-current assets), increasing 9% from as of February 28, 2019. This can be categorized by business type as follows: credit card receivable of 37,636 million baht, increasing by 3% y-y; loans receivable of 47,959 million baht, increasing by 10% y-y; hire purchase receivable of 4,113 million baht, increasing by 94% y-y and others receivable of 118 million baht.

- Allowance for doubtful accounts

As of November 30, 2019, the Company provided allowance for doubtful accounts of 3,807 million baht or 4.24% of total accounts receivable, comparing to that of 2,880 million baht or 3.49% of total accounts receivable at the end of previous fiscal year. The percentage account receivable 3 month's overdue or non-performing loan ratio was 3.49%, increased from 2.77% at the end of last year.

Liabilities

The consolidated liabilities of the Company as of November 30, 2019, totaled 74,270 million baht, an increase of 5,537 million baht or 8% from 68,733 million baht at the end of fiscal year 2018. This was a result of both short-term and long-term borrowings increased by 7% from the end of last year to 68,467 million baht. The portion of long-term borrowings was 44,061 million baht or represented 64% of total borrowings, decreasing from 75% of fiscal year 2018.

To manage risk that might occur from the fluctuation in currency and interest rate of long-term a debenture in foreign currencies, the Company has entered into cross currency interest rate swap contracts to hedge its debt.

On November 15, 2019, the Company has issued two tranches of debentures for Private Placement to institutional investors at the amount of 3,800 million baht comprise; (1) Tranche 1: Debenture term is 3 years and fixed interest rate at 2.27% per annum (2) Tranche 2: Debenture term is 5 years and fixed interest rate at 2.57% per annum. The debentures have been rated A-(tha) by Fitch Ratings (Thailand) Limited.

Shareholders' Equity

As of November 30, 2019, total shareholders' equity amounted to 20,277 million baht, an increase of 1,888 million baht or 10% over the end of fiscal year 2018. Consequently, book value as of November 30, 2019 was 79.6 baht per share, increased from 72.2 baht per share as of February 28, 2019.

Debt to Equity ratio as of November 30, 2019 at 3.7 times slightly decreased from 3.8 times at the end of 2018. Return on Equity (ROE) and Return on Asset (ROA) for nine months period were 20.5% and 4.3%, respectively.