

February 11, 2020

Subject Management Discussion and Analysis for the periods of three months and nine months ended 31st December 2019

To President of the Stock Exchange of Thailand  
Secretary of the Office of Securities and Exchange Commission

Lohakit Metal Plc. (the "Company") would like to notify the financial status and operating performance for the periods of three months and nine months ended 31st December 2019 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For three months ended 31 <sup>st</sup> December				For nine months ended 31 <sup>st</sup> December			
	Oct - Dec 2019	Oct - Dec 2018	Change	% Change	Apr - Dec 2019	Apr - Dec 2018	Change	% Change
Revenue from sales & service	634.48	791.59	-157.11	-19.9%	2,099.99	2,489.75	-389.76	-15.7%
Other income	4.96	7.46	-2.50	-33.5%	14.89	20.29	-5.40	-26.6%
<b>Total revenue</b>	<b>639.44</b>	<b>799.05</b>	<b>-159.61</b>	<b>-20.0%</b>	<b>2,114.88</b>	<b>2,510.04</b>	<b>-395.16</b>	<b>-15.7%</b>
Cost of goods sold & service	558.33	692.70	-134.37	-19.4%	1,855.61	2,177.71	-322.10	-14.8%
Selling expenses	18.00	17.50	0.50	2.9%	51.41	50.33	1.08	2.2%
Administrative expenses	28.95	27.89	1.06	3.8%	95.26	83.72	11.54	13.8%
<b>Total expenses</b>	<b>605.28</b>	<b>738.09</b>	<b>-132.81</b>	<b>-18.0%</b>	<b>2,002.28</b>	<b>2,311.76</b>	<b>-309.48</b>	<b>-13.4%</b>
<b>Earning before interest and tax</b>	<b>34.16</b>	<b>60.96</b>	<b>-26.80</b>	<b>-44.0%</b>	<b>112.60</b>	<b>198.28</b>	<b>-85.68</b>	<b>-43.2%</b>
Financial expenses	-0.94	-1.67	0.73	-43.7%	-2.97	-4.30	1.33	-30.9%
Share of income from investment in associate	0.45	0.65	-0.20	-30.8%	1.52	1.47	0.05	3.4%
Corporate Income tax expenses	-6.47	-11.67	5.20	-44.6%	-21.39	-38.51	17.12	-44.5%
<b>Net profit for the period</b>	<b>27.20</b>	<b>48.27</b>	<b>-21.07</b>	<b>-43.7%</b>	<b>89.76</b>	<b>156.94</b>	<b>-67.18</b>	<b>-42.8%</b>
Profit Sharing for non-controlling interest of a subsidiary company	-10.35	-16.07	5.72	-35.6%	-32.77	-44.12	11.35	-25.7%
<b>Net profit for the company and its subsidiaries</b>	<b>16.85</b>	<b>32.20</b>	<b>-15.35</b>	<b>-47.7%</b>	<b>56.99</b>	<b>112.82</b>	<b>-55.83</b>	<b>-49.5%</b>

## 1. Operating Performance

For the period of three months ended 31st Dec 2019, the net profit for the company and its subsidiaries was at Baht 16.85 million or -47.7 percent. The results of the current quarter have decreased by compared with the same period last year. The Thai economy in the latest quarter was more slowing down, with exports continuing to contract following the slowdown in the counterpart economy. This is resulting to contraction in imports of goods, industrial production and private investment while the Company and its subsidiaries have been continuously affected by the economic slowdown in Thailand in the current year. The sales volume is therefore below the volume of the same quarter of the previous year, mainly due to the sharp lower of purchasing power in most industries, as well as the strong competition in the stainless steel pipe, aluminum and copper. This caused the decreasing in sale weight and selling price. In addition, there is a one-time expense for big maintenance of forming machines for the purpose to use them in long-term. As a result, gross profit decreased in the current quarter.

For nine months ended 31st Dec 2019, the Company and its subsidiaries reported operating profit of Baht 89.76 million, a decrease of 42.8% and net profit of Baht 56.99 million or decreased by 49.5% while compared to the same period of last year which the net profit was Baht 112.82 million. This was due to the economic turning down in past nine months. The foreign purchasing power was greatly contracted by trade impacts and the higher

competition in view of excess supply. These factors affect the sales volume and selling price. Therefore has a direct impact on the company's gross profit and net profit. Moreover, the Company and its subsidiaries have set aside provision in first quarter of the year for the additional employee benefits at the amount of approximately 7.7 million baht in order to comply with the Labor Protection Act, revised and announced in 2019.

## **1.1 Revenue**

For the period of three months ended 31st Dec 2019, the Company and its subsidiaries had revenue from sales and service of Baht 634.48 million compared with Baht 791.59 million in the same period of the previous year, which decreased by 19.9 percent. The sales volume has decreased following the economic and export slowdown and the selling price has decreased in accordance with the intensive competition in the main products such as copper, aluminum and stainless pipes in accordance with lower in global raw material prices and increasing competition.

The sales of company and its subsidiaries mostly came from copper, aluminum and stainless products.

For nine months of year ended 31st Dec 2019, the Company and its subsidiaries had revenue from sales and service of Baht 2,099.99 million compared with Baht 2,489.75 million in the same period of the previous year or decreased by 15.7 percent.

## **1.2 Other income**

Other income consists of interest income, gain from asset sales and revenue from scrap sales. For the period of three months and period of nine months ended 31st Dec 2019, the Company and its subsidiaries had other income of Baht 4.96 million and 14.89 million baht respectively, which decreased by 33.5 percent and 26.6 percent from the same periods of previous year. The significant other income is income from scrap sales which were the results from the processing of cold rolled stainless steel sheet and coil such cut to length as per customers' requirements. The Company and its subsidiaries therefore sold scrap and recorded as the other income.

## **1.3 Cost of goods sold**

Major cost of goods sold are cost of raw material such cold rolled stainless steel sheet and coil and special grade stainless which the Company and its subsidiaries process. For the period of three months ended 31st Dec 2019, the Company and its subsidiaries had cost of goods sold of Baht 558.33 million, or stood at 87.32 percent of the total revenue, increase in comparing with Baht 692.70 million, or stood at 86.69 percent of total revenue of previous year. However, cost of good sold for the period of three months ended 31st Dec 2019 decreased by 19.4 percent while sales & service decreasing by 19.9 percent from the same period of previous year due to sales was affected by the declining sales price.

For nine months ended 31st Dec 2019, the Company and its subsidiaries had cost of goods sold of Baht 1,855.61 million, or stood at 87.74 percent of the total revenue in comparing with Baht 2,177.71 million, or stood at 86.76 percent of total revenue of previous year.

## **1.4 Selling expenses**

Selling expenses consist of sale staff expenses, transportation expenses, commissions and promotion expenses. For the periods of three months and nine months ended 31st Dec 2019, the Company and its subsidiaries had selling expenses of Baht 18.00 million and 51.41 million, compared with selling expenses of Baht 17.50 million and 50.33 million in the same periods of the previous year, or increased by 2.9 percent for three months period and increased by 2.2 percent for the nine months period respectively. Most of the higher

expenses are staff expenses that are normally raised and the increased delivery costs due to increased sales weight.

For the period of three months and nine months ended 31st Dec 2019, the selling expenses were 2.84 percent and 2.45 percent of total sales and service respectively, compared with 2.21 percent and 2.02 percent in the same periods of previous year.

### **1.5 Administrative expenses**

Administrative expenses consist of executive expenses and staff expenses other than sale department, office rental expenses and other management and administrative expenses. For the period of three months and period of nine months ended 31st Dec 2019, the Company and its subsidiaries had administrative expenses of Baht 28.95 million and 95.26 million, compared with administrative expenses of Baht 27.89 million and 83.72 million in the same period of the previous year which increased by 3.8 percent and increase by 13.8 percent respectively. The major expenses are mainly in area of personnel costs due to salary normally increased year by year and other administrative expenses.

The higher administration expenses in nine months ended 31st Dec 2019 was due to the Company and its subsidiaries have set aside provision in first quarter for additional employee benefits at the amount of approximately 7.7 million baht in order to comply with the Labor Protection Act, revised and announced in 2019.

### **1.6 Share of income from investment in associate**

In April 2009, the Company invested in the ordinary shares of Mory Lohakit (Thailand) Co.,Ltd. ,who is the marketing and sale force for the company and its subsidiaries and joint venture, by holding 49 percent of total shares. As for the periods of three months and nine months ended 31st Dec 2019, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.45 million and 1.52 million in consolidated income statements or decreased by 30.8 percent in current quarter due to lower sale in the subsidiary company who operate the automotive exhausted pipe and increase by 3.4 for the period of nine months.

### **1.7 Earning (loss) before interest and tax and Net Profit (loss)**

For the periods of three months and nine months ended 31st Dec 2019, the Company and its subsidiaries had earning before interest and tax of Baht 34.16 million and Baht 112.60 million respectively. After deducting the financial costs of Baht -0.94 million and Baht -2.97 million, adding the share of income from investment of Baht 0.45 million and Baht 1.52 million, deducting the corporate income tax of Baht -6.47 million and Baht -21.39 million, the net profit of the Company and its subsidiaries were at Baht 27.20 million and Baht 89.76 million. When comparing to the same periods of the previous year, the earning before interest and tax and net profit for the period of the three months were decreased by -44.0 percent and by -43.7 percent respectively, whereas the earning before interest and tax and net profit for nine months were both decreased by -43.2 percent and -42.8 percent respectively.

In addition to the periods of three months and nine months ended 31st Dec 2019, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht -10.35 million and -32.77 million respectively. The lower in profit sharing was due to the lower in net profit of a subsidiary. As a result, the net profit for the company and its subsidiary were amount of Baht 16.85 million and 56.99 million respectively.

### **1.8 Corporate income tax**

For the periods of three months and nine months of year ended 31st Dec 2019, the Company and its subsidiaries recognized corporate tax expenses by Baht 6.47 million and

21.39 million, decrease from the same period of previous year of Baht 11.67 million and 38.51 million as the result of lower operating profit.

### **1.9 Profit Sharing for non-controlling interest of a subsidiary company**

On Oct 1' 2010, the company sold partial investment in a subsidiary company to Japanese alliance. The Company and its subsidiaries recognized profit sharing to minority shareholders according to the percentage of shareholding of net profit in subsidiary through the period of its holding which was amount by Baht 10.35 million and 32.77 million for the periods of three months and nine months ended 31st Dec 2019.

### **1.10 Profitability**

For the period of three months ended 31st Dec 2019, the Company and its subsidiaries had gross profit margin of 12.00 percent, compared with gross profit margin of 12.49 percent in the same period of the previous year. This was mainly due to lower sales in the higher margin segment like stainless steel and lower in overall sales.

For nine months ended 31st Dec 2019, the Company and its subsidiaries had gross profit margin of 11.64 percent compared with gross profit margin of 12.53 percent in the same period the previous year. The gross profit margin decreased by Baht -67.66 million.

(Unit: Baht million)

Consolidated balance sheets	As at 31st Dec 2019		As at 31 <sup>st</sup> Mar 2019	
	Amount	%	Amount	%
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	138.03	6.48%	314.32	13.40%
Short-term investment	106.83	5.02%	4.38	0.19%
Account receivable, trade and others	556.31	26.13%	673.05	28.70%
Inventories	650.60	30.55%	716.37	30.54%
Other current assets	7.22	0.34%	5.91	0.25%
<b>Total current assets</b>	<b>1,458.99</b>	<b>68.52%</b>	<b>1,714.03</b>	<b>73.08%</b>
<b>Non-current assets</b>				
Restricted bank deposits	46.18	2.17%	46.18	1.97%
Investment in associate	11.19	0.53%	9.67	0.41%
Long-term investment	4.02	0.19%	3.51	0.15%
Property, plant and equipment	583.97	27.42%	544.27	23.20%
Intangible assets	1.83	0.09%	0.37	0.02%
Deferred tax assets	19.64	0.92%	15.56	0.66%
Other non-current assets	3.41	0.16%	11.94	0.51%
<b>Total non-current assets</b>	<b>670.24</b>	<b>31.48%</b>	<b>631.50</b>	<b>26.92%</b>
<b>TOTAL ASSETS</b>	<b>2,129.23</b>	<b>100.00%</b>	<b>2,345.53</b>	<b>100.00%</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Short term loans from banks	65.32	3.07%	92.25	3.93%
Account payables, trade and others	401.25	18.85%	516.82	22.03%
Income tax payable	9.20	0.43%	20.12	0.86%
Other current liabilities	8.39	0.39%	8.56	0.37%
<b>Total current liabilities</b>	<b>484.16</b>	<b>22.74%</b>	<b>637.75</b>	<b>27.19%</b>
<b>Non-current liabilities</b>				
Provision for long-term employee benefits	53.30	2.50%	41.37	1.76%
<b>Total non-current liabilities</b>	<b>53.30</b>	<b>2.50%</b>	<b>41.37</b>	<b>1.76%</b>
<b>TOTAL LIABILITIES</b>	<b>537.46</b>	<b>25.24%</b>	<b>679.12</b>	<b>28.95%</b>
<b>SHAREHOLDERS' EQUITY</b>				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	17.99%	383.00	16.33%
Premium on stock	519.67	24.41%	519.67	22.16%
Retained earnings				
Legal reserve	75.07	3.53%	74.90	3.19%
Un-appropriated	410.37	19.27%	468.04	19.96%
Non-controlling interest of the subsidiary	203.66	9.56%	220.80	9.41%
<b>Total shareholders' equity</b>	<b>1,591.77</b>	<b>74.76%</b>	<b>1,666.41</b>	<b>71.05%</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,129.23</b>	<b>100.00%</b>	<b>2,345.53</b>	<b>100.00%</b>

## **2. Financial Status**

### **2.1 Assets**

As for the assets value as at 31st December and 31st March 2019, the Company and its subsidiaries had total assets of Baht 2,129.23 million and Baht 2,345.53 million respectively. Cash, trade accounts receivable and inventory decreased by 176.29 million baht, 116.74 million baht and 65.77 million baht respectively due to the contraction in sales but increase in short term investment 102.45 million baht. The Company and its subsidiaries operated integrated stainless center which provided many kinds of services such as procurement, transformation, manufacture and stainless products wholesale and a subsidiary who is the finish goods trader of metal and non-ferrous metal. Therefore, the Company and its subsidiaries' major assets are inventories, account receivables, land, plant and equipment as details below:

- 2.1.1 Inventories: As at 31st December and 31st March 2019 the Company and its subsidiaries had net inventories of Baht 650.60 million (or 30.55 percent of total assets) and Baht 716.37 million (or 30.54 percent of total assets) respectively. The decrease in inventories were mainly following the lower sales and decrease in global material price.
- 2.1.2 Trade account receivables – other parties: As at 31st December and 31st March 2019, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 556.31 million (or 26.13 percent of total assets) and Baht 673.05 million (or 28.70 percent of total assets) respectively. Trade receivables decreased in following to the lower sales.
- 2.1.3 Short term investment: As at 31st December and 31st March 2019 the Company and its subsidiaries had short term investment of Baht 106.83 million (or 5.02 percent of total assets) and Baht 4.38 million (or 0.19 percent of total assets) respectively. The higher investment value came from the investment in unit value of mutual fund due to the excessive cash balance.
- 2.1.4 Land, plant and equipments - Land and improvements, building, machinery, office equipments, vehicles and work on progress of construction: As at 31st December and 31st March 2019, the Company and its subsidiaries had Land, plant and equipments – net of Baht 538.97 million (or 27.42 percent of total assets) and Baht 544.27 million (or 23.20 percent of total assets) respectively.
- 2.1.5 Restricted bank deposit: As at 31st December and 31st March 2019, the Company and its subsidiaries had net value of Baht 46.18 million (or 2.17 percent of total assets and 1.97 percent of total assets) respectively. The restricted fix deposit by a subsidiary was used as guarantee for loans from financial institution.
- 2.1.6 Deferred tax assets: As at 31st December and 31st March 2019, the Company and its subsidiaries had net value of Baht 19.64 million and Baht 15.56 million respectively (0.92 percent and 0.66 percent of total assets respectively).

### **2.2 Liabilities**

The total liabilities of the Company and its subsidiaries as at 31st December and 31st March 2019 stood at Baht 537.46 million and Baht 679.12 million respectively. The decrease in liabilities was mainly due to decreasing in current liabilities, reflecting lower purchases of raw materials in the meantime. In addition, the company and its subsidiaries have additional long-term liabilities following the setting of one time provision for additional employee benefits of approximately 7.7 million baht in order to comply with the Labor Protection Act. Revised and announced in 2019.

### 2.3 Shareholders' equity

As at 31st December and 31st March 2019, shareholders' equity was Baht 1,591.77 million and Baht 1,666.41 million or decrease by 74.64 million. The major changes were the net profit amounting to Baht 90.17 million and dividend payment of Baht 164.82 million. Therefore, portions of company shareholding interest and non-controlling interest of subsidiary stood at Baht 1,388.11 million and Baht 203.66 million respectively.

Debt to Equity ratio as at 31st December and 31st March 2019 were 0.34 and 0.41 times respectively. The lower D/E ratio was due to lower current liabilities as a result of lower raw material purchase and the contraction of sales in this quarter.

(Unit: Baht million)

<b>Consolidated cash flows statement</b>	<b>As at 31st Dec 2019</b>	<b>As at 31st Dec 2018</b>
Net cash from (used in) operating activities	196.96	84.00
Net cash used in investing activities	-181.46	-152.90
Net cash from (used in) financing activities	-191.75	-114.04
Effect of exchange rate to cash and cash equivalent	-0.03	0.02
Net increase (decrease) in cash	-176.28	-182.92

### 3. Cash flows

For the year ended 31st December 2019 and 2018, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 196.96 million, consisting of baht 131.54 million positively from operating performance and net positive in working capital of Baht 65.42 million. The net positive cash flow in working capital came from smaller amounts of account receivable and inventory over net negative cash flow for payment of trade payable.

Net cash flow from investing activities was -181.46 million baht, with higher short-term investment by -103.00 million baht and use to invest in new machines and equipment in solar roof-top project and other by -82.13 million baht.

The financing part was net Baht -191.75 million by settlement of short term loan -26.93 million and payment of dividend by Baht -164.82 million.

In total, net cash for the period was decreased by Baht -176.28 million.

Sincerely yours,

(Mr. Vittawat Akarapongpisak)  
Deputy Managing Director