

Ref: AC.017/2020

18 May 2020

Subject: Management discussion and analysis of financial position and operating results

To: President and Manager

The Stock Exchange of Thailand

Overall operating performance of the Group

Unit: Million Baht

	Q1' 2020	Q1' 2019	Increase (decrease)	Variance (%)
Total revenues	1,572	1,677	(105)	(6%)
Net profit	73	81	(8)	(10%)

The Group's total revenues for the first quarter of 2020 amounted Baht 1,572 million, which was decreased by Baht 105 million or a decrease of 6% compared to the total revenues for the first quarter of 2019 amounting to Baht 1,677 million. The decline was mainly due to the decrease in revenue from EMS and Smart service businesses.

The Group's profit for the first quarter of 2020 amounted to Baht 81 million, which was decreased by Baht 8 million or an decrease of 10% compared to the profit for the first quarter of 2019 amounting to Baht 73 million. The decline was mainly due to the decrease in gross profit of Smart service business and the increase in administrative expenses.

Analysis of revenues

	Q1' 2020		Q1' 2019		Increase (decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Revenues from main business						
EMS business	338	22%	394	24%	(56)	(14%)
Enterprise solution business	365	23%	373	22%	(8)	(2%)
Smart service business	789	50%	840	50%	(51)	(6%)
Total revenues from main business	1,492	95%	1,607	96%	(115)	(7%)
Other income	80	5%	70	4%	10	14%
Total revenues	1,572	100%	1,677	100%	(105)	(6%)

EMS business

The Company had revenue from EMS business for the first quarter of 2020 amounting to Baht 338 million, a decrease of Baht 56 million or a decrease of 14% compared to that of the previous year amounting to Baht 394 million. The decline was mainly due to the relocation of the production base of a former large customer. In addition, the outbreak of COVID-19 has affected most businesses and industries, such as supply chain systems, consumer spending or production disruptions, as well as delayed operations.

Enterprise solution business

Revenue from Enterprise solution business for the first quarter of 2020 was Baht 365 million, a decrease of Baht 8 million or a 2% decrease. There was no significant change when compared to the same period of last year. At the end of the first quarter of 2020, the Group has outstanding backlog amounting to approximately Baht 2,000 million.

Smart service business

The Company had revenue from Smart service business for the first quarter of 2020 amounting to Baht 789 million, a decrease of Bath 51 million or a decrease 6% compared to that previous period amounting to Baht 840 million. It was affected by the epidemic of COVID-19, together with government lockdown measures that began in the second half of March 2020 to allow for social pacing and slow down the spread of COVID-19 in the country as much as possible, resulting in disruption of many businesses. In addition, the drought situation has reduced the income of the labor and farmers sector greatly.

Gross Profit and Gross Profit Margin

	Q1' 2020		Q1' 2019		Increase (decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
EMS business	73	22%	74	19%	(1)	(1%)
Enterprise solution business	86	23%	66	18%	20	30%
Smart service business	177	22%	211	25%	(34)	(16%)
Gross Profit	336	22%	351	22%	(15)	(4%)

EMS business

Gross profit for the first quarter of 2020 was Baht 73 million, a decrease of Baht 1 million or 1% decrease from the same period of last year. Gross profit margin for the first quarter of 2020 increased from 19% to 22% due to the proportion of revenue of a former large customer with a low gross margin tended to continually decline.

Enterprise solution business

Gross profit for the first quarter of 2020 was Baht 86 million, an increase of Baht 20 million or 30% increase from the same period of last year. Gross profit margin for the first quarter of 2020 increased from 18% to 23%. The increase was due to in the first quarter of 2019, the Company recorded the reduction of inventories to the net realizable value of Baht 20 million. It is included as part of the cost of sales, resulting in lower gross profit and gross profit margin than the gross profit and gross profit margin of the first quarter of 2020.

Smart service business

Gross profit for the first quarter of 2020 was Baht 177 million, a decrease of Baht 34 million or 16% decrease from the same period of last year. The reduction is in line with the decrease in income. Gross profit margin for the first quarter of 2020 decreased from 25% to 22% due to the decrease of revenue while the Company has fixed costs such as depreciation of top-up and vending machines.

Expenses and expenses to revenues from main business

	Q1' 2020		Q1' 2019		Increase (decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Selling expenses	28	2%	22	1%	6	27%
Administrative expenses	214	14%	191	11%	23	12%
Finance cost	23	1%	28	2%	(5)	(18%)
Income tax expenses	24	2%	29	2%	(5)	(17%)

Selling expenses

Selling expenses for the first quarter of 2020 and the selling expenses to revenue from main business were not significant change compared to the same period of last year.

Administrative expenses

Administrative expenses for the first quarter 2020 amounted to Baht 214 million, an increase of Baht 23 million or an increase of 12% from the same period of last year. This is due to the increase in administrative expenses such as amortization of computer software, provision for long-term employee benefits, doubtful debt and personnel expenses etc.

Finance cost

The financial cost for the first quarter 2020 amounted to Baht 23 million, a decrease of Baht 5 million or a decrease of 18% from the same period of last year. The decrease was in line with the reduction of long-term loans.

Income tax expenses

Income tax expenses for the first quarter 2020 amounted to Baht 24 million, a decrease of Baht 5 million or a decrease of 17% from the same period of last year. This is consistent with the decreased profit.

Financial position

Assets

Unit: Million Baht

	31 March 2020	31 December 2019	Increase (decrease)	% Variance
Current assets	4,160	4,115	45	1%
Non-current assets	3,597	3,502	95	3%
Total assets	7,757	7,617	140	2%

Total assets as at 31 March 2020 amounted to Baht 7,757 million, an increase of Baht 140 million or an increase of 2% compared to the total assets as at 31 December 2019, amounting to Baht 7,617 million. The increase was mainly from advances payment for goods and rights-of-use assets

The quality of assets

Trade account receivables

Unit: Million Baht

	Consolidated financial statements	
	31 March 2020	31 December 2019
Trade account receivables - unrelated parties	743	641
Less: Allowance for doubtful accounts	(87)	(81)
Trade account receivables - net	656	560

As at 31 March 2020 and 31 December 2019, the Group had the allowance for doubtful accounts, amounting to Baht 87 million and Baht 81 million, respectively. The Group recognizes an allowance for expected credit losses on its trade receivables, and it is no longer necessary for a credit-impaired event to have occurred. The Group applies the simplified approach to consider impairment of trade receivables.

Inventories

Unit: Million Baht

	Consolidated financial statements	
	31 March 2020	31 December 2019
Inventories	1,313	1,372
Reduce cost to net realisable value	(401)	(393)
Inventories - net	912	979

As at 31 March 2020 and 31 December 2019, the Group had the reduction of cost to net realisable value amounting to Baht 401 million and Baht 393 million, respectively. The Group estimates net realisable value of inventories taking into the account fluctuations of price or cost directly related to events occurring after the end of the period, movements of inventories and the prevailing economic condition. Management believed that the reduce cost to net realisable value is adequate in the current circumstances.

Source of fund

Unit: Million Baht

	31 March 2020	31 December 2019	Increase (decrease)	% Variance
Current liabilities	5,422	4,920	502	10%
Non-current liabilities	356	251	105	42%
Total liabilities	5,778	5,171	607	12%
Total shareholders' equity	1,979	2,446	(467)	(19%)

Liabilities

Total liabilities as at 31 March 2020 were Baht 5,778 million, an increase of Baht 607 million or an increase of 12% compared to the total liabilities as at 31 December 2019, which was Baht 5,171 million. The decrease was mainly due to the increase of accrued dividend payable and long-term lease liabilities.

Shareholders' equity

Total shareholders' equity as at 31 March 2020 were Baht 1,979 million, a decrease of Baht 467 million, or a decrease of 19% compared to the total shareholders' equity as at 31 December 2019, which was Baht 2,446 million. The change was due to the net profit for the period, the dividend payment to the shareholders and non-controlling shareholders of the subsidiary (FSMART) and the share repurchase of the Company and the subsidiary (FSMART).

The appropriate of capital structure

The debt to equity ratio as at 31 March 2020 was 2.92:1, decreased from the debt-to-equity ratio as at 31 December 2019, which was 2.11: 1. The decrease was due to the increase of liabilities and the decrease of shareholders' equity.

Liquidity

Cash flows

Unit: Million Baht

	Q1' 2020	Q1' 2019
Cash flows from (used in) operating activities	210	869
Cash flows from (used in) investing activities	(22)	(62)
Cash flows from (used in) financing activities	(240)	(842)

Cash flows from operating activities for the first quarter of 2020 were Baht 210 million, decreased by Baht 659 million compared to that of the previous year amounting to Baht 869 million. It resulted from the increase of working capital i.e. trade receivables, unbilled receivables, trade payables etc.

Cash flows used in investing activities for the first quarter of 2020 were Baht 22 million, decreased by Baht 40 million compared to that of the prior year amounting to Baht 62 million. It was due to in the first quarter of 2019, the Company purchased ordinary shares of the subsidiary (FSMART) in the Stock Exchange of Thailand in the amount of Baht 44 million.

Cash flows used in financing activities for the first quarter of 2020 were Baht 240 million, decreased by Baht 602 million compared to that of the same period of last year amounting to Baht 842 million. The decrease was due to in the first quarter of 2019, the Company made a repayment of short-term loans in the amount of Baht 693 million.

Liquidity ratio

Current ratio as at 31 March 2020 was 0.77:1 which was closed to the current ratio as at 31 December 2019, which was 0.84:1.

Please be informed accordingly.

Yours sincerely,

(Mr. Arin Jamnaree)

Financial Controller