

Management Discussion and Analysis

For the Second Quarter ended June 30, 2020



Management Discussion and Analysis

1. Overview

It was unavoidable that the corona virus (Covid 19) situation had some impact on the company's operation. The impact became pronounced since the announcement of the emergency decree on 26 March 2020. In addition to this, the Bank of Thailand (BOT) had announced a measure to help borrowers due to the impact of Covid 19, as per the BOT's 26, March 2020, and 19 June 2020 's letters. The company had complied with the BOT's letters by offering debt repayment suspension program to the customers. According to the program, the customers were allowed to suspend 3 debt repayments. The suspended payments should be paid altogether with the final payment according to the hire-purchase loan contract. To be qualified in the program, the customers must not have more than 3 overdue payments, and must have already performed at least one payment. About 80% of the customers were qualified in this program. However, about 15% of the qualified customers declined their intention to be in the program. In addition, during the payment suspension period, about 40% of the customers in the program had made some regular payments. Following the payment suspension program, the company had also offer a debt restructuring program.

The lock-down measure by the government created some obstacles in conducting the company's business. One obstacle was about the travelling limit in some areas for the customers, marketing officers, and credit checkers. 70% of the company's customers are refinanced customers which came from other finance institutions. Most of them were under payment suspension programs at other financial institutions. The company avoided to do lending to these customers, and approval procedures were tighten. As a result, the loan rejection rate turned up to be high. Resulting from the company's debt repayment suspension program, the overdue of customers in the program were frozen, and the provision for doubtful debt was minimized. The company is still monitoring these portion of customers closely.

As for the operating result for the first half of 2020, the company produced a net income of 137.99 MB, an increase of 26.91% from the same period of last year (1 st half of 2019's net profit was 108.73). The new lending for the first half of 2020 turned up to be 537 MB, a slightly lower than the same period of last year by 70 MB (New lending for the first half of 2019's was 607 MB). The Q2 2020 new lending was 187 MB, a decline by 46.57% from the previous quarter. (Q1 's new lending was 350 MB). The decline was a result of

Covid 19 situation as mentioned earlier. As a result of debt repayment suspension program, the company's NPF at end of Q2 had fallen to 2.71%, a 2.90% decline from the previous quarter (Q1 's NPF was 5.61%).

As for the operating result of Q2 2020, the company net profit of Q2 2020 was 65.55 MB., 9.51% decline from the previous quarter. This decline resulted mainly from 2 reasons. The first reason was about the debt repayment suspension program during the Q2, causing the revenue from hire-purchase to decreased 9.89 MB, 6.10% decrease. Because of the program, the company's had to recalculated the new effective profit rate (EPR) according changes in the pattern of debt repayment cash flows of all the accounts in the program. The new EPR turned up to be lower than the original effective profit rate. The revenue from hire-purchase had to be adjusted down for this reason. (However, the total Baht revenue from the whole term of each hire-purchase contract was unchanged. As a result of new EPR, the revenue from hire-purchase would be adjusted down for a certain period (after the debt repayment suspension period), and this revenue would be adjusted up later. The summation of negative and positive adjustments would be zero because of the unchanged in Baht revenue from the whole term of the hire-purchase contact.) The second reason was about the corporate tax expenses in Q2 which was higher than the previous quarter. This is because the company's tax saving from loan loss in Q2 2020 was lower than the tax saving from loan loss in Q1. Comparing profit before tax of Q2 2020 and Q1 2020, profit before tax of Q2 was 80.49 MB, an increase of 11.80 MB, 17.18% increase from the previous quarter. One factor that contributed to the profit of Q2 2020 was a significant decline in provision for doubtful debt, resulting from the debt repayment suspension program during the Q2. The provision for doubtful debt in Q2 2020 was 3.98 MB, while the provision for doubtful debt in Q1 2020 was 38.57 MB. The other factor contributed to the profit of Q2 2020 was the reduction in administrative expense of 14.28% from the previous quarter.

2. Operation results and profitability

2.1 The company's operating result, ending 30 June 2020

(unit: Thousand Baht)

Continuing operations:	Q2/2020	Q1/2020	Q2/2019	QoQ	YoY	six-month / 2020		six-month / 2019		YoY	
						amount	%	amount	%	+ / -	%
Income from hire-purchase contracts	152,331	162,224	142,849	-6.10%	6.64%	314,555	81.94%	285,003	83.40%	29,552	10.37%
Income from finance lease contracts			3		-100.00%			4	0.00%	(4)	-100.00%
Income from operating lease contracts								1,524	0.45%	(1,524)	-100.00%
Income from inventory finance receivable	605	1,011	846	-40.15%	-28.54%	1,616	0.42%	1,541	0.45%	75	4.84%
Fee and service income	6,500	13,134	13,325	-50.51%	-51.22%	19,634	5.11%	24,732	7.24%	(5,098)	-20.61%
Other income	17,622	30,465	14,650	-42.16%	20.28%	48,087	12.53%	28,923	8.46%	19,164	66.26%
Total income	177,058	206,834	171,673	-14.40%	3.14%	383,892	100.00%	341,727	100.00%	42,165	12.34%
Cost of operating lease contracts			966		-100.00%			2,802	0.82%	(2,802)	-100.00%
Selling expenses	359	1,071	900	-66.54%	-60.19%	1,430	0.37%	1,927	0.56%	(498)	-25.82%
Administrative expenses	58,847	68,649	60,246	-14.28%	-2.32%	127,496	33.21%	119,707	35.03%	7,790	6.51%
Expected credit losses (Bad debt and doubtful accounts)	3,976	38,570	16,853	-89.69%	-76.41%	42,546	11.08%	41,324	12.09%	1,221	2.95%
Impairment loss and loss on sales of properties foreclosed	12,212	9,120	1,268	33.91%	863.03%	21,332	5.56%	578	0.17%	20,755	3591.57%
Finance costs	21,178	20,739	18,682	2.12%	13.36%	41,917	10.92%	37,297	10.91%	4,620	12.39%
Total expenses	96,572	138,149	98,915	-30.10%	-2.37%	234,721	61.14%	203,635	59.59%	31,086	15.27%
Profit (loss) before income tax expenses	80,486	68,685	72,758	17.18%	10.62%	149,171	38.86%	138,092	40.41%	11,079	8.02%
Income tax (expenses)	14,938	(3,754)	13,094	n.m.	14.08%	11,184	2.91%	29,363	8.59%	(18,179)	-61.91%
Profit (loss) for the period	65,548	72,439	59,664	-9.51%	9.86%	137,987	35.94%	108,729	31.82%	29,258	26.91%

Q2 2020 's operating result comparing to Q2 2019 's operating result

The company's Q2 2020 net profit was 65.55 MB, an increase of 5.88 MB, 9.66% increase, comparing to the Q2 2019's (Q2 2019's net profit was 59.66 MB). The main factors that contributed to the growth in net profit were the increase in revenue from hire-purchase, 6.64% increase (The increase from 142.85 MB to 152.33 MB), and the increase in other income, mainly from the recovery of judicial debt, the increase of 20.28% (increase from 14.65 MB to 17.62 MB). Upon this, the revenue from fees and services had decreased by 6.83 MB, 51.22% decrease. The reason for this was the decline in Q2's lending. The revenue from inventory finance (which was from one remaining customer) varied with the loan withdrawn from the customer. The total expenses decreased 2.34 MB, 2.37% decrease. The decrease in total expenses resulted mainly from the

decrease in the provision for loan loss expense by 12.88 MB, 76.41% decrease. This mainly was the result from debt repayment suspension program. The loss from depreciated and sale of foreclosed assets increased by 10.94 MB, 863% increase. This loss resulted from the lock-down measure, causing inactive auction activity of the used car market. However, the auction market of used car had already recovered since beginning of July. The used car market price had improved and was expected to improve more gradually. The cost of funding had increased by 2.50 MB, 13.36% increase, due to increase in loan outstanding. The company had just received the approval of addition 200 MB term loan from the Islamic Bank of Thailand, and had already withdrawn 100 MB for funding. In addition, the Government Saving Bank had just approved the 322 MB term loan to assist the company with the debt repayment suspension program.

Operating result of Q2 2020 compared to Q1 2020's (QoQ)

The total revenue decreased from 206.83 MB in Q1 2020 to 177.06 MB in Q2 2020, 29.78 MB decrease, 14.40% decrease. This decrease resulted from a decrease of 9.89 MB from hire-purchase revenue, 6.10% decrease. The decrease in revenue from hire-purchase was mainly a result from debt repayment suspension program. The company had to recognize revenue from hire-purchase as per the new Effective Profit Rate which was lower than the original Effective Profit Rate. The decrease in fee and services of 6.63 MB, 50.51% decrease, was correspond with a drop in new lending in Q2, during the Covid 19 situation. Other income in Q2 2020 was lower than Q1 2020's by 12.84 MB, 42.16% lower. This was because in Q1 2020, there was a recovery of one large account of judicial debt. As for the total expenses, the total expenses in Q2 2020 had decreased 30.10% from Q1 2020's (decrease from 138.15 MB to 96.57 MB). The major decrease resulted from a decrease in provision for loan loss by 34.59 MB, 89.69% decrease. The decrease was the result of debt repayment suspension program, causing the aging of overdue of the accounts included in the program to be frozen. The administrative expenses decreased by 9.80 MB, 14.28% decrease. The loss from depreciated and sale of foreclosed assets increased by 3.09 MB ,33.91% increase, resulting from the inactive used-car auction market during the lock-down measure.

Operating result of Q2 2020

In Q2 2020, the company generated a net profit of 65.55 MB, declining by 6.89 MB, 9.51 % decline, comparing to the previous quarter. However, Q2 2020 's net profit had increased 5.88 MB, 9.86% increase, comparing to the Q2 2019. As for the 6 months operating result (Jan 2020-June 2020), the company generated a net profit of 137.99 MB, 26.91% increase, comparing to the same period of the previous year. The factor that contributed to continuation of profit was a result of growing hire-purchase loan portfolio. However, due to the debt repayment suspension program in Q2 , the company had to recognize revenue according to the new Effective Profit Rate. The new Effective Profit Rate was below the original Effective Profit Rate, causing some downward adjustment in revenue from hire-purchase. However, the debt repayment suspension program resulted in a significant lower provision for loan loss comparing to other previous quarters.

Financial Position of Q2 2020

(unit : Million Baht)

Statements of financial position	Q2/2020	Q1/2020	QoQ	Q2/2019	YoY
Cash and cash equivalents	80.69	97.49	-17.23%	71.42	12.98%
Hire-purchase receivables	3,272.24	3,229.23	1.33%	2,824.71	15.84%
Inventory finance receivables	10.08	24.20	-58.35%	19.11	-47.25%
Properties and equipment	27.43	29.10	-5.74%	27.45	-0.07%
Properties foreclosed	65.94	57.71	14.26%	60.34	9.28%
Deferred tax assets	39.68	51.54	-23.01%	40.01	-0.82%
Others	77.93	80.27	-2.92%	68.20	14.27%
Total assets	3,573.99	3,569.54	0.12%	3,111.24	14.87%
Short-term loan from major sharehc	2,083.44	2,009.62	3.67%	1,796.00	16.00%
Others	94.38	232.45	-59.40%	84.32	11.93%
Total liabilities	2,177.82	2,242.07	-2.87%	1,880.32	15.82%
Shareholders' equity	1,396.17	1,327.47	5.18%	1,230.92	13.42%

Financial Ratio	Q2/2020	Q1/2020	Q2/2019
Liquidity Ratio (multiple)	0.56	0.48	0.49
Debt to Equity Ratio (multiple)	1.56	1.69	1.53
NPF (%)	2.71%	5.61%	6.43%

At Q2 2020, the company had a total asset of 3,573.99 MB, an increase of 4.45 MB from the previous quarter, 0.12% increase. The major increase were from 1) the increase in lending port of 43.01 MB, 1.33% increase, 2) the increase in foreclosed assets of 8.23 MB, 14.26% increase.

As for the liabilities, in Q2 2020, the company had a total liabilities of 2,177.82 MB, a decrease of 64.25 MB, 2.87% decrease, from the previous quarter. Comparing to the same quarter of previous year, the total liabilities had increased 297.50 MB, 15.82% increase. This increase resulted from the increase in financial institution borrowings. As of 30 June 2020, the borrowing from financial institutions was 2,083.44 MB.

As for the equity, in Q2 2020 the company had the total equity of 1,396.17 MB, 68.70 MB increase, 5.18% increase, comparing to the previous quarter. The increase in total equity resulted from the increase in retained earning. The debt to equity ratio had declined from 1.69 MB in the previous quarter to 1.56 MB in the Q2 2020, as a result of the increase in retained earning.