

MBK Public Company Limited and its subsidiaries

Management discussion and analysis

For the three-month period ended 31 March 2019 (The first quarter)

Analysis of operating results

1. Overall operating results

The operating results of MBK Public Company Limited and its subsidiaries (“the Group”) for the three-month periods ended 31 March 2019 and 2018 are as follows:

(Unit: Million Baht)

For the three-month periods ended 31 March				
	2019	2018	Inc/(Dec)	
1) Operating revenue	2,715	2,587	128	5%
2) Operating profit	514	539	(25)	(5%)
3) Share of profit from investments in associates and joint venture	108	93	15	16%
4) Other income	57	19	38	200%
5) Finance costs	(85)	(47)	(38)	(81%)
6) Income tax expense	(115)	(108)	(7)	(6%)
7) Net profit	479	496	(17)	(3%)
8) Loss (profit) attributable to non-controlling interest of the subsidiaries	-	(3)	3	100%
9) Net profit – attributable to equity holders of the Company	479	493	(14)	(3%)
10) Earnings per share (Baht)	0.36	0.37	(0.01)	(3%)

The overall operating results of the Group for the three-month period ended 31 March 2019 in comparison with the same period of last year showed that the performance of the Group slightly decreased. The operating revenue for the three-month periods ended 31 March 2019 and 2018 were Baht 2,715 million and Baht 2,587 million, respectively, increased by Baht 128 million or 5%. On the other hand, the net profit attributable to equity holders of the Company (“the net profit”) for the three-month periods ended 31 March 2019 and 2018 were Baht 479 million and Baht 493 million, respectively, slightly decreased by Baht 14 million or 3%. The significant changes were as follows:

- a) The significant changes in operating revenue and operating profit (loss) of the Group business segments were noted in No. 2.1 - Operating revenue – by segment and No. 2.2 – Operating profit (loss) – by segment.
- b) Other income increased by Baht 38 million or 200% mainly due to the recognition gain on sales of investment in marketable securities in the current quarter of Baht 34 million.
- c) Finance costs increased by Baht 38 million or 81% mainly due to the issuances of long-term debentures, net of redemptions by Baht 2,300 million during the period of 2018 for the purposes of long-term investments in various projects of the Group.

2. Revenue and operating results by segment

The Group's business operations are divided into 8 principal segments as follows:

1. Shopping Center business engages in the business of rental space to retail tenants in the shopping centers and the business of office space for rent.
2. Hotel and tourism business engages in providing for lodging, food and drink, and other facilities and services related for accommodation and travel.
3. Golf business engages in golf services, clubhouse and selling golf equipment.
4. Real-estate business engages in residential for sale, property management and asset appraisal.
5. Food Solution business engages in selling rice for both local and export markets, and the food center and restaurant business.
6. Finance business engages in providing general loan for housing and bridge loan of which the security is marketable property in good location, motorcycle hire-purchase business, and provision of life assurance business*.
7. Other business engages in the business of car and motorcycle auction* and water supply business.
8. Supporting business performs as a back office functions for the Group.

Note: * The company that engages in such business is classified as an associate therefore the recognition of operating results is in the form of profit sharing.

The significant movements in operating revenue and operating profit/(loss) by segment for the three-month period ended 31 March 2019 when compared to the same period of 2018 were as follows:

2.1 Operating revenue – by segment

(Unit: Million Baht)

For the three-month periods ended 31 March				
Segment	2019	2018	Increase/(Decrease)	
1) Shopping Center	980	994	(14)	(1%)
2) Hotel and tourism	412	421	(9)	(2%)
3) Golf	157	148	9	6%
4) Real-estate	117	59	58	98%
5) Food Solution	496	457	39	9%
6) Finance	550	504	46	9%
7) Other	2	2	-	-
8) Supporting	1	2	(1)	(50%)
Total	2,715	2,587	128	5%

The operating revenue of the Group for the three-month periods ended 31 March 2019 and 2018 were Baht 2,715 million and Baht 2,587 million, respectively, which increased by Baht 128 million or 5%. The major changes in operating revenue by segment were as follows:

- a) The revenue of shopping center business decreased by Baht 14 million, mainly due to a decrease in revenue of Paradise Shopping Center by Baht 14 million. The major reasons were that a major tenant returned partial rental space in June 2018 and ceased its operation since 1 February 2019. In addition, the revenue of MBK Shopping Center slightly decreased by Baht 4 million due to the renovation of partial space for rent, resulted that the number of saleable area was lower than last year period.
- b) The revenue of real-estate business increased by Baht 58 million or 98% from the following residential projects such as “Baan Rom-Mai” in Chonburi and Rayong by Baht 20 million, “Park Riverdale” in Pathumtani by Baht 16 million, and the residential projects in Phuket by Baht 22 million.
- c) The revenue of food solution business increased by Baht 39 million or 9%, mainly due to the increase in sale of rice by Baht 50 million, as results of sale of rice under project “G to G” (Government to Government) which increased by Baht 40 million.
- d) The revenue of finance business increased by Baht 46 million or 9%, which mainly derived from hire-purchase for motorcycle business by Baht 46 million as a result of the continued growth of loans to medium and big bike segments.

2.2 Operating profit (loss) – by segment

(Unit: Million Baht)

For the three-month periods ended 31 March				
Segment	2019	2018	Increase/(Decrease)	
1) Shopping Center	218	248	(30)	(12%)
2) Hotel and tourism	93	102	(9)	(9%)
3) Golf	52	48	4	8%
4) Real-estate	(19)	(10)	(9)	(90%)
5) Food Solution	(8)	3	(11)	(367%)
6) Finance	175	151	24	16%
7) Other	2	(4)	6	150%
8) Supporting	1	1	-	-
Total	514	539	(25)	(5%)

The operating profit of the Group for the three-month periods ended 31 March 2019 and 2018 were Baht 514 million and Baht 539 million, respectively, decreased by Baht 25 million or 5%. In overall, operating results varied according to the movements of operating revenue by segment as mentioned in No.2.1, normal economic conditions and the significant changes as follows:

- a) During the current period, real-estate business devalued cost of inventory - a house for sale in Phuket of Baht 7 million. In addition, marketing and administrative expenses related to the new condominium project “Quinn Sukhumvit 101” increased by Baht 7 million. The project had pre-sale in October 2018 and the construction work is expected to be finished and transferred ownership in October 2020.
- b) Food solution business generated loss from operations mainly due to the rice market competition. The proportion of the increase in selling price of rice was lower than the increase in cost of rice resulted that the gross profit margin was lower than the same period of last year. In addition, the average margin of the rice export under G to G project is rather low.

Analysis of financial position

The significant movements in assets, liabilities and shareholders' equity as at 31 March 2019 when compared with the balance as at 31 December 2018 were as follows:

(Unit: Million Baht)

	31 Mar 2019	31 Dec 2018	Increase/(Decrease)	
Total assets	50,633	49,096	1,537	3%
Total liabilities	26,969	26,412	557	2%
Total shareholders' equity	23,664	22,684	980	4%

3. Assets

3.1 Current investments and long-term investments

Current investments and long-term investments mainly represented investments in equity securities which are classified as available-for-sale marketable securities. The balance as at 31 March 2019 was Baht 9,310 million, increased by Baht 766 million or 9% primarily due to the increase in fair value of marketable securities by Baht 617 million and the increase in purchases of investment in marketable securities (net of sales) by Baht 130 million.

3.2 Loans to customers

Loans to customers (including current portion), net of allowance for doubtful accounts, balance as at 31 March 2019 was Baht 13,874 million, increased by Baht 939 million or 7%. The major increase were from the loan receivables portfolio which secured by pledged/mortgaged of assets specified in the loan agreements increased by Baht 683 million according to the growth of its business. In addition, the hire-purchase receivables portfolio for motorcycle portfolio increased by Baht 255 million mainly from the market segment of a medium and big sizes of motorcycle.

3.3 Investment in associates and joint venture

Investment in associates and joint venture balance as at 31 March 2019 was Baht 6,544 million, increased by Baht 126 million or 2 % mainly due to the recognition share of profit under equity method for the current quarter amount of Baht 108 million.

3.4 Investment properties

Investment properties balance as at 31 March 2019 was Baht 8,631 million, decreased by Baht 104 million or 1%. The significant movements during the period were as follows:

	Description	Million Baht
1	The costs of renovation MBK Shopping Center	10
2	The costs of renovation Paradise Park and Paradise Place	11
3	Reclassification of equipment items related to the rental space business that presented under Property, plant and equipment (Refer to No.3.5(4)), moved to present under Investment properties	52
4	Depreciation for the period	(181)
5	Others	4
	Total net movements	(104)

3.5 Property, plant and equipment

Property, plant and equipment balance as at 31 March 2019 was Baht 5,129 million, decreased by Baht 85 million or 2%. The significant movements during the period were as follows:

	Description	Million Baht
1	The costs of improvement and maintenance golf courses in Pathumtani and Phuket	40
2	Purchases of exercise machine for operation of Fitness Center	11
3	Purchases of other operating fixed assets	28
4	Reclassification of equipment items related to the rental space business that presented under Property, plant and equipment, moved to present under Investment properties (Refer to No.3.4(3))	(52)
5	Depreciation for the period	(105)
6	Others	(7)
	Total net movements	(85)

4 Liabilities

4.1 Bank overdrafts and short-term loans from financial institutions

Bank overdrafts and short-term loans from financial institutions balance as at 31 March 2019 was Baht 2,889 million, increased by Baht 133 million or 5% for the purposes of Group business expansion.

4.2 Deferred tax liabilities

Deferred tax liabilities balance as at 31 March 2019 was Baht 1,456 million, increased by Baht 147 million or 11%. The increase of Baht 122 million was from the increase in fair value of investments in available-for-sale marketable securities on hand as at 31 March 2019.

5 Shareholders' equity

Total shareholders' equity balance as at 31 March 2019 was Baht 23,664 million, increased by Baht 980 million or 4%. The significant movements were as follows:

- a) Retained earnings increased by Baht 479 million derived from the net profit for the three-month period ended 31 March 2019.
- b) The increase of Baht 510 million in other components of shareholders' equity was mainly due to the increase of Baht 495 million in unrealized gains on available-for-sale marketable securities, net of related deferred tax liabilities impact, as a result of the higher stock market price.

Analysis of the liquidity

6. Cash flows of the Group for the three-month periods ended 31 March 2019 and 2018 are summarised in the table below.

(Unit: Million Baht)

For the three-month periods ended 31 March				
	2019	2018	Cash flows	
			Increase/(Decrease)	
Net income from operating activities before changes in operating assets and liabilities	904	1,033	(129)	(12%)
Net movements in operating assets and liabilities	(940)	(1,467)	527	36%
Net cash flows received from (used in) operating activities	(36)	(434)	398	92%
Net cash flow received from (used in) investing activities	(97)	(228)	131	57%
Net cash flows received from (used in) financing activities	9	640	(631)	(99%)
Net increase (decrease) in cash and cash equivalents	(124)	(22)	(102)	(464%)

6.1 Cash flows from operating activities

Net cash flows from operating activities increased by Baht 398 million or 92%. The major cash increases were from the decrease of lending business (net of repayment) by Baht 288 million and the decrease of purchase inventories by Baht 171 million. However, the major cash decrease was from payments to trade and other payables by Baht 144 million. The other significant movements in cash flows from operating activities and operating assets and liabilities are as mentioned in the analysis of operating results and financial status above.

6.2 Cash flows from investing activities

Net cash flows used in investing activities decreased by Baht 131 million or 57%. The major reason was that in March 2018, there was cash payment of Baht 108 million to purchase additional investment in Siam Piwat Company Limited, an associate.

6.3 Cash flows from financing activities

Net cash flows received from financing activities decreased by Baht 631 million or 99% due to the decrease in cash receipts from short-term loans from financial institutions (net of cash repayments) by Baht 628 million.