

SITHAI-0502/62

14 May 2019

Subject Management Discussion and Analysis for Q1/2019

Dear President

The Stock Exchange of Thailand (SET)

With respect to the interim financial information for Q1/2019 which has been reviewed by the external auditor, considered by the Audit Committee, and approved by the Company's Board of Directors on 14 May 2019, the Company wishes to report in summary as follows:

1. Summary of Operating Results of the Group

The summary of operating results for Q1/2019, compared with Q1/2018 is as follows:

Sales of the Group were Baht 2,414 million, increased by Baht 43 million or 1.8% YoY. This was mainly due to the growth of beverage packaging products both in domestic market and in Vietnam as the Vietnamese economy was growing, while sales of the Group's other products decreased, resulting from the slowdown of domestic economy.

Table 1: Summary of Operating Results of the Group

(Unit: Million Baht)	Q1/2018	Q1/2019	% YoY + / (-)
Sales	2,371*	2,414	1.8%
Gross Profit	281*	259	(7.8%)
Gross Profit (%)	11.8%	10.7%	(1.1%)
EBITDA**	245	239	(2.4%)
EBITDA Margin (%)	10.3%	9.9%	(0.4%)
Net profit for the period	15	10	(33.3%)
Net profit on sales (%)	0.6%	0.4%	(0.2%)
Profit attributable to equity holders of the Company	9	11	22.2%
Earnings per share (Baht)	0.003	0.004	33.3%

Note:

*Restated sales according to TFRS 15

(Please see additional explanation in No. 6 Significant Event during Q1/2019)

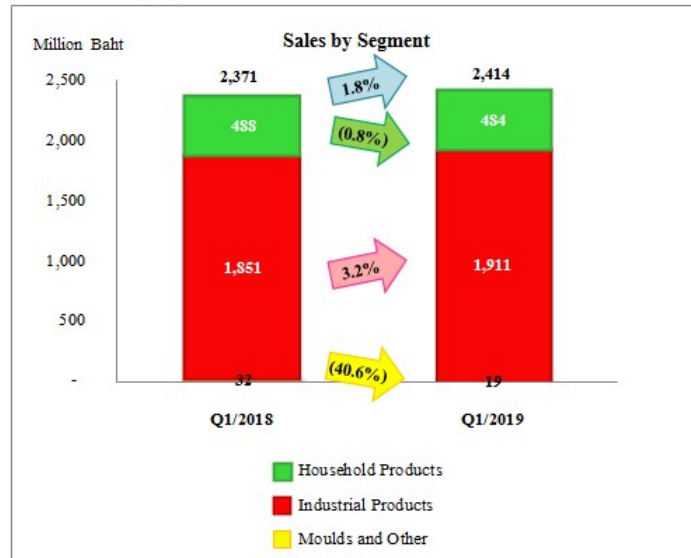
**EBITDA excludes share of profit from investments in associates

Gross profit decreased by Baht 22 million with gross profit margin reduced from 11.8% to 10.7%, this was attributable to the negative impact from market competition on selling prices, together with increased production costs.

Earning before interest, tax, depreciation and amortization ("EBITDA") slightly decreased from Baht 245 million to Baht 239 million, as a result, EBITDA margin decreased by 0.4% YoY (from 10.3% to 9.9%). As such, net profit of Q1/2019 was Baht 10 million with profit attributable to the equity holders of the Company being Baht 11 million, an increase of 22.2% YoY. This represents an Earning Per Share of Baht 0.004 – an increase from an Earning Per Share of Baht 0.003 YoY.

2. Operating Results by Segment

Picture 1: Sales by Segment



2.1 Plastic Business Line

2.1.1 Household Products

Q1/2019 sales of Household Business Products were Baht 484 million, decreased by 0.8% YoY, which can be summarized according to the following operating business bases:

➤ Domestic operations

Sales decreased from both wholesale and direct sales channels due to the economic slowdown and consumers' high household debt level causing lower purchasing power and spending.

However, export sales channel increased slightly from customers in the Middle East for Ramadan and major customers from Europe and the US.

➤ Overseas operations

Sales increased mainly from a subsidiary in India which had continuously developed new products through HORECA and traditional market channels.

Table 2: Summary of Operating Results of Household Products

(Unit: Million Baht)	Q1/2018	Q1/2019	%YoY + / (-)
Sales	488*	484	(0.8%)
Domestic operations	412	400	(2.9%)
Overseas operations	76	84	10.5%
Operating profit	18	12	(33.3%)
Operating profit margin (%)	3.7%	2.5%	(1.2%)
EBITDA**	41	34	(17.1%)
EBITDA Margin (%)	8.4%	7.0%	(1.4%)

Note:

*Restated sales according to TFRS 15

**EBITDA excludes other income and share of profit from investments in associates

Operating profit of Household Business Products decreased from the last year, operating profit margin dropped from 3.7% to 2.5%, and EBITDA margin lowered from 8.4% to 7.0%. This was due to market competition affecting on selling prices and the decrease in gross margin deriving from higher proportion of lower gross profit for export sales as well as the Baht appreciation against the US Dollar. Although the prices of major raw materials have not changed significantly, wages increased due to the Company's annual wage adjustment, as such, the production costs could not decrease against reduced selling price. Additionally, selling and administrative expenses decreased in less proportion than the decrease in gross profit.

2.1.2 Industrial Products

Q1/2019 sales of Industrial Business Products were Baht 1,911 million, increased by 3.2% YoY, which can be summarized according to the following operating business bases:

➤ Domestic operations

Total sales decreased from battery cases, paint pails, and pallets as well as subsidiaries' sales of automotive parts. The economic slowdown and uncertainty of

political situation caused less domestic investment and consumption. However, sales for the beverage packaging products increased due to the upcoming peak summer season and market expansion of drinking water following health-conscious trend.

➤ Overseas operations

Sales of beverage packaging products significantly grew by 30.1% due to an increase in sales orders from major customers which expanded their production base in Central Vietnam, strong economic growth in Northern Vietnam, as well as enlarged sales from paint pails and battery cases customers.

Table 3: Summary of Operating Results of Industrial Products

(Unit: Million Baht)	Q1/2018	Q1/2019	%YoY + / (-)
Sales	1,851*	1,911	3.2%
Domestic operations	1,409	1,336	(5.2%)
Overseas operations	442	575	30.1%
Operating profit	36	30	(16.7%)
Operating profit margin (%)	1.9%	1.6%	(0.4%)
EBITDA**	210	199	(5.2%)
EBITDA Margin (%)	11.3%	10.4%	(0.9%)

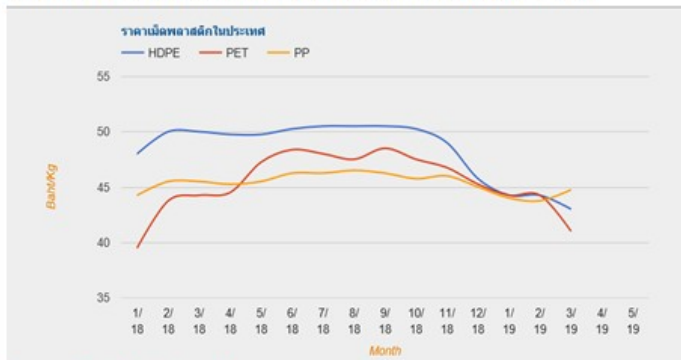
Note:

*Restated sales according to TFRS 15

**EBITDA excludes other income and share of profit from investments in associates

Operating profit of Industrial Business Products decreased from the last year, operating profit margin decreased from 1.9% to 1.6%, and EBITDA margin decreased from 11.3% to 10.4%. This was mainly due to the decrease in gross profit of domestic operations resulting from reduced selling price adjusted in line with raw

material market price reduction despite increase in other production costs. Our major raw materials are 1) HDPE 2) PET and 3) PP whose prices are in the decreasing trend (as shown in Picture 2). Consequently, our selling prices were adjusted and reduced amid the competitiveness and market slowdown. In addition, wages increased due to the Company's annual wage adjustment while production was not at full capacity. Although selling and administrative expenses decreased, their decrease was in less proportion than decreased gross profit, causing the overall profit of the Group decreased.

Picture 2: Trend of main raw materials historical price from 2018


Source: <http://plastic.oie.go.th/>

2.2 Moulds and Other Business Line

Q1/2019 sales of the Moulds and Other Business Line were Baht 19 million, decreased by 40.6% YoY, due to the postponement of moulds delivery by customers.

Operating loss of Moulds and Other Business Line was Baht 17 million, increased from Baht 16 million loss in Q1/2018. Operating loss margin increased to 89.5%, and EBITDA margin was negative 68.4%.

Loss came mainly from Moulds Business due to less orders received from customers downsizing their investment. Production costs remained flat while selling and administrative expenses decreased with less proportion than the decrease in sales.

Table 4: Summary of Operating Results of Moulds and Other
Business Line

(Unit: Million Baht)	Q1/2018	Q1/2019	%YoY + / (-)
Sales	32*	19	(40.6%)
Domestic operations	28	16	(42.9%)
Overseas operations	4	3	(25.0%)
Operating profit (loss)	(16)	(17)	(6.3%)
Operating profit (loss) margin (%)	(50.0%)	(89.5%)	(39.5%)
EBITDA**	(12)	(13)	(8.3%)
EBITDA Margin (%)	(37.5%)	(68.4%)	(30.9%)

Note:

*Restated sales according to TFRS 15

**EBITDA excludes other income and share of profit from investments in associates

3. Financial Position

At the end of Q1/2019, total assets decreased from the end of 2018 which comprised the key items as follows:

- Trade receivables increased from customers of beverage packaging products in Q1/2019 in line with the expansion of sales entering to peak season.
- Inventories decreased from production policy according to orders received from customers in order to reduce stocking up inventories of the Group.
- Property, Plant and Equipment decreased as a result of depreciation and amortization netted with additional acquisition of assets during the period.

Total liabilities decreased from the end of 2018 due to repayment of long term loans.

Total shareholders' equity decreased from exchange rate differences on translation of financial statements in foreign currency.

4. Cash flow

The Group had a decrease in cash and cash equivalents compared to Q1/2018 as follows:

- Decrease in cash flow from operating activities compared with the same period last year mainly due to the increase in trade receivables, and the decrease in trade payables.

- Increase in cash flow used in investment activities compared with the same period last year due to acquisition of assets since the end of previous year to the end of current period.

- Decrease in cash flow used in financing activities compared with the same period last year due to less repayment of short term and long term loans.

As at 31 March 2019, the Group still has available unused credit facilities totaling more than Baht 4 billion comprising overdraft facilities, long term loans, and revolving credit lines – all of which have appropriate interest costs. As such, the Group is confident that it has sufficient cash flow for its operations.

Table 5: Key items in Statement of financial position

(Unit: Million Baht)	Q4/2018	Q1/2019
Trade receivables	2,072	2,193
Inventories	1,772	1,639
Property, plant and equipment	4,909	4,737
Total assets*	10,239	9,960
Short-term loans	2,156	2,153
Long-term loans	1,872	1,691
Total liabilities*	5,814	5,555
Total shareholders' equity*	4,425	4,405

Note:

*Total lines extracted from Statements of Financial Position

Table 6: Cash flow statement

(Unit: Million Baht)	Q1/2018	Q1/2019
Net cash flows from operating activities	222	109
Net cash flows used in investing activities	(56)	(63)
Net cash flows used in financing activities	(240)	(178)
Net increase (decrease) in cash and cash equivalents	(74)	(132)

5. Key Financial Ratios

Liquidity Ratio

Liquidity ratio as at the end of Q1/2019 was 1.1 times, unchanged from the end of Q1/2018 showing that current assets were sufficient against payment of current liabilities.

Working Capital Ratios

Cash Cycle as at the end of Q1/2019 was 111.4 days, shorter than that the end of Q1/2018 being 112.4 days due to:

➤ As at the end of Q1/2019, the average number of days for Trade Receivables equaled to 81.8 days,

a decrease compared with the end of Q1/2018 being 82.4 days. This is due to more active debt collection activities.

➤ As at the end of Q1/2019, the average number of days for Inventories equaled to 68.5 days, a decrease compared with the end of Q1/2018 being 73.1 days. This is due to the procurement and management of raw materials and finished products in stock relative to sales and production plan.

➤ As at the end of Q1/2019, the average number of days for Trade Payables equaled to 38.8 days, a decrease compared to the end of Q1/2018 being 43.2 days. This is due to procurement of raw materials in relative with stock management and sales plan

Profitability Ratios

➤ Return on Equity, as at the end of Q1/2019 was 0.2%, a decrease compared to 0.3% as at the end of Q1/2018, corresponding to the operating profit which decreased from the same quarter of previous year.

➤ Return on Operating Assets, as at the end of Q1/2019 was 0.2%, a decrease compared to 0.3% as at the end of Q1/2018, following the operating profit and gross profit which decreased from the same quarter of previous year.

Financial Structure Ratios

➤ The Group had Debt to Equity Ratio as at the end of Q1/2019 of 1.3 times, unchanged from the end of Q1/2018. This is due to an overall decrease in debts resulted from decrease in outstanding balance of loans as well as total shareholders' equity decreased from the previous annual dividend payment.

➤ Net interest bearing debts to equity of the Group at the end of Q1/2019 was 0.8 times, decreasing from 0.9 times at the end of Q1/2018 as a result of the decrease in proportion of interest-bearing debts.

Table 7: Key Financial Ratios

Description	Unit	Q1/2018	Q1/2019
Liquidity Ratio			
Current Ratio	Times	1.1	1.1
Working Capital Ratios			
Collection Period	Days	82.4	81.8
Inventory Turnover Period	Days	73.1	68.5
Payment Period	Days	43.2	38.8
Cash Cycle	Days	112.4	111.4
Profitability Ratios			
Return on Equity	%	0.3	0.2
Return on Operating Assets	%	0.3	0.2
Financial Structure Ratios			
Debt to Equity	Times	1.3	1.3
Net Interest Bearing Debt to Equity	Times	0.9	0.8

6. Significant Event during Q1/2019

6.1 Significant change in accounting policy

Adoption of the Thai Financial Reporting Standard No. 15 (TFRS 15)

The Group has adopted TFRS 15 which is effective on 1 January 2019. This requires adjustments of last year comparative figures, as if the Group had fully adopted this accounting policy from the beginning. Those adjustments have no impact on net profit. However, the adjustments affecting the income statement for Q1/2018 are presented below.

The nature of these adjustments are described below:

- Commission and other selling expenses paid to obtain a contract – the Group has determined that commission and other selling

(Unit: Million Baht)	Previous	Adjustment	TFRS 15
Sales	2,407	(36)	2,371
Cost of sales	(2,085)	(5)	(2,090)
Selling and distribution expenses	(169)	41	(128)
Net profit	15	-	15

expenses were paid to generate revenue that occurred in the current period and have a direct relationship with sales, therefore they are recorded by netting against sales. Previously, these were recognized as selling and distribution expenses.

- Royalty expenses—the Group has determined that royalty expenses were paid to licensors for the right to use production technology and process including brands, and have a direct relationship with the quantity of the goods sold, therefore they are recorded as cost of sales. Previously, these were recognized as selling and distribution expenses.

7. Business outlook in Q2/2019

7.1 Plastic Business Line

Household Products

Domestic and export markets remain stable, however, the Group has constantly developed new products and has marketing plans for various festivals throughout the year in order to increase sales from the previous year.

Industrial Products

Sales of beverage packaging products are expected to increase due to the peak summer season. Gross profit is improving resulting from declining average price of plastic resin.

Sales of food packaging products are expected to increase from cinema business, while other products remain stable from uncertainty of domestic economy and forming a new government.

Beverage packaging and other industrial products for overseas operations are likely to grow in accordance with economic conditions in Vietnam.

7.2 Moulds and Other Business Line

Sales remain stable. Customers still delay on investment in new moulds due to uncertainty of economic and political situations.

8. Significant Event after the reporting period

8.1 Amendments to the law relating to the legal severance pay rates

On 5 April 2019, The Labor Protection Act (No. 7) B.E. 2562 was announced in the Royal Gazette. This stipulates additional legal severance pay rates for employees who have worked for an uninterrupted period of twenty years or more, with such employees entitled to receive not less than 400 days' compensation at the latest wage rate. The law is effective from 5 May 2019. This change is considered a post-employment benefits plan amendment and the Group has additional long-term employee benefit liabilities of Baht 62 million as a result. The Group will reflect the effect of the change by recognizing past service costs as expenses in the income statement of Q2/2019.

Please be informed accordingly.

Yours faithfully,

Srithai Superware Public Company Limited

Chaiwat Kulphattaravanich

Director and Company Secretary