

SITHAI-0801/62

14 August 2019

Subject Management Discussion and Analysis for Q2/2019

Dear President

The Stock Exchange of Thailand (SET)

With respect to the interim financial information for Q2/2019 which has been reviewed by the external auditor, considered by the Audit Committee, and approved by the Company's Board of Directors on 14 August 2019, the Company wishes to report in summary as follows:

1. Summary of Operating Results of the Group

The summary of operating results for Q2/2019 decreased from Q2/2018 and Q1/2019 with the sales of Baht 2,259 million, decreased by Baht 27 million or 1.2% YoY and decreased by Baht 155 million or 6.4% QoQ. This was mainly due to a drop in sales for household and industrial products of domestic operations, resulting from internal factors such as economic slowdown, the high level of household debts

affecting consumers' purchasing power and spending, uncertainty of political stability for a new government and external factors deriving from the overall global economy, a stronger Thai Baht impacting on Thai exports, and trade war. Nevertheless, beverage packaging products in domestic operation and in Vietnam are still bright and growing well.

Gross profit of Baht 201 million decreased by Baht 74 million or 26.9% YoY, and decreased by Baht 58 million or 22.4% QoQ. Gross profit margin of 8.9% decreased from 12.0% in Q2/2018 and 10.7% in Q1/2019. Decrease in gross profit resulted from higher market competition which impacted on selling prices, and export sales were further hit with a stronger Thai Baht, while the cost of production increased from not being fully utilized, the annual wage raise and the effect of the compensation adjustment under new labour law.

Table 1: Summary of Operating Results of the Group

(Unit: Million Baht)	Q2/2018	Q1/2019	Q2/2019	Q2/2019★	%YoY	%QoQ
					+ / (-)	+ / (-)
Sales	2,286*	2,414	2,259	2,259	(1.2%)	(6.4%)
Gross Profit	275*	259	201	236	(26.9%)	(22.4%)
Gross Profit (%)	12.0%	10.7%	8.9%	10.4%	(3.1%)	(1.8%)
EBITDA**	263	239	159	220	(39.5%)	(33.5%)
EBITDA Margin (%)	11.5%	9.9%	7.0%	9.7%	(4.5%)	(2.9%)
Net profit (loss) for the period	37	10	(65)	(16)	(275.7%)	(750.0%)
Net profit (loss) on sales (%)	1.6%	0.4%	(2.9%)	(0.7%)	(4.5%)	(3.3%)
Profit (loss) attributable to equity holders of the Company	41	11	(64)	(20)	(256.1%)	(681.8%)
Earnings (loss) per share (Baht)	0.015	0.004	(0.023)	(0.007)	(253.3%)	(675.0%)

Note:

*Restated sales according to TFRS 15

**EBITDA excluding share of profit from investments in associates

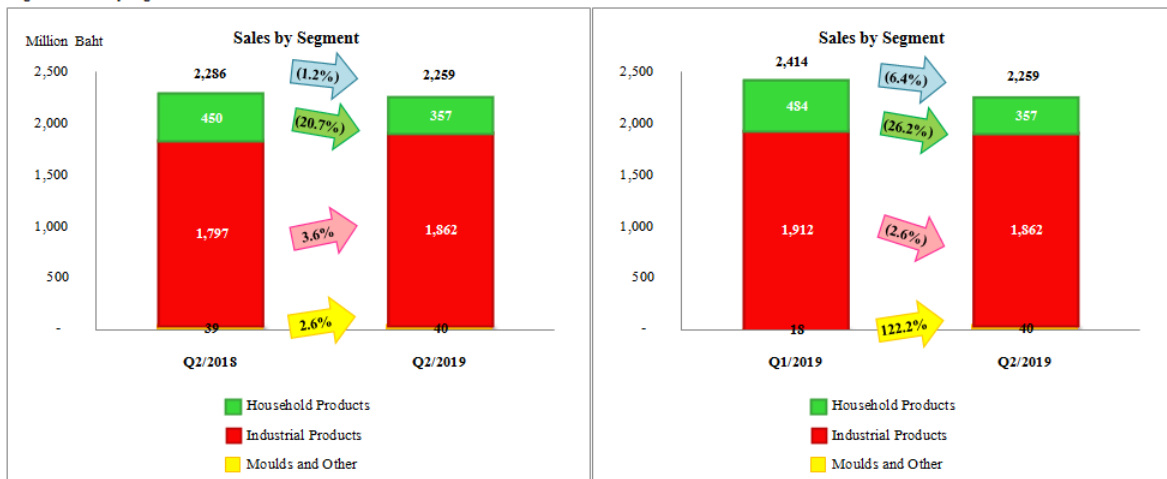
★Excluding effect of compensation under the new labour law

Earnings before interest, tax, depreciation and amortization (“EBITDA”) of Baht 159 million (EBITDA margin 7.0%), decreased by Baht 104 million or 39.5% YoY, and decreased by Baht 80 million or 33.5% QoQ. As such, net loss of Q2/2019 was Baht 65 million with a loss attributable to the equity holders of the Company being Baht 64 million. This represents a Loss Per Share of Baht 0.02, a decrease from an Earnings Per Share of Baht 0.02 YoY.

Excluding compensation under the new labour law recorded in cost of sales of Baht 35 million and selling and administrative expenses of Baht 26 million (details of the impact in No. 6.1), the Group would have gross profit Baht 236 million in Q2/2019, a decrease by Baht 39 million or 14.2% YoY, with gross profit margin of 10.4%, EBITDA margin of 9.7% and net loss of Baht 16 million, respectively, as shown in Table 1.

2. Operating Results by Segment

Figure 1: Sales by Segment



2.1 Plastic Business Line

2.1.1 Household Products

Q2/2019 sales of Household Business Products were Baht 357 million, decreased from Q2/2018 and Q1/2019 by 20.7% and 26.2%, respectively, which can be summarized according to the following operating business bases:

➤ Domestic operations

Sales decreased from domestic base that were directly

affected by the slowdown in consumer spending on durable goods due to high household debt levels, resulting in lower domestic sales in both wholesale and direct sales channels. Whereas, export sales were affected by the global economic slowdown, the slow recovery in the Middle East and European markets as well as the recent trade war, together with the appreciation of the Baht against the US Dollar, as can be seen from the movement of the Baht/USD (shown in Figure 2).

Table 2: Summary of Operating Results of Household Products

(Unit: Million Baht)	Q2/2018	Q1/2019	Q2/2019	Q2/2019★	%YoY +/(-)	%QoQ +/(-)
Sales	450*	484	357	357	(20.7%)	(26.2%)
Domestic operations	363	400	283	283	(22.0%)	(29.3%)
Overseas operations	87	84	74	74	(14.9%)	(11.9%)
Operating profit (loss)	33	12	(37)	(18)	(212.1%)	(408.3%)
Operating profit (loss) margin (%)	7.3%	2.5%	(10.4%)	(5.0%)	(17.7%)	(12.8%)
EBITDA**	55	34	(16)	3	(129.1%)	(147.1%)
EBITDA Margin (%)	12.2%	7.0%	(4.5%)	0.8%	(16.7%)	(11.5%)

Note:

*Restated sales according to TFRS 15

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

★Excluding effect of compensation under the new labour law

Figure 2: Exchange rate trend Baht per US Dollar



➤ Overseas operations

Sales decreased from subsidiaries in Vietnam and India, due to more competition in modern trade channel in Vietnam, and the delay in consumer spending waiting for policies from a new government during the election period in India.

With the decrease in such sales, Household Business Products faced the operating loss in Q2/2019 with operating

loss margin 10.4%, decreased from Q2/2018 at operating profit margin of 7.3% and Q1/2019 of 2.5%, respectively. EBITDA margin reduced from 12.2% in Q2/2018 and 7.0% in Q1/2019 to a loss of 4.5% in Q2/2019. Such decrease in operating margin was derived from the decrease in gross profit in line with lower sales, intense market competition affecting on selling prices, and the Baht appreciation against the US Dollar since the end of 2018 (as shown in Picture 2). Whereas, cost of sales increased from the Company's annual raise, despite no significant change in price of major raw materials. Moreover, the compensation adjustment under the new labour law was added on the production costs with less reduction in percentage of selling and administrative expenses on sales.

2.1.2 Industrial Products

Q2/2019 sales of Industrial Business Products were Baht 1,862 million, increased by 3.6% YoY, but decreased by 2.6% QoQ, which can be summarized according to the following operating business bases:

➤ Domestic operations

Total sales increased mainly from Q2/2018 for beverage packaging products because major customers had increased

distribution channels to reach more consumers and expanded the market to cover drinking water customers in line with current health-conscious trend. Whereas sales decreased from Q1/2019 for battery cases, crates, garbage bins, and pallets due to the slowdown in consumption and investment by the private sector as well as political uncertainty.

➤ Overseas operations

Sales grew from Q2/2018 and Q1/2019 due to orders of beverage packaging products in line with the growth in carbonated soft drink segment and the economy of Vietnam. This led to major increase in orders from major customers and enlarged customer base. In addition, sales of industrial products also increased from customers expanding their number of stores.

Table 3: Summary of Operating Results of Industrial Products

(Unit: Million Baht)	Q2/2018	Q1/2019	Q2/2019	Q2/2019★	%YoY +/(-)	%QoQ +/(-)
Sales	1,797*	1,912	1,862	1,862	3.6%	(2.6%)
Domestic operations	1,249	1,337	1,254	1,254	0.4%	(6.2%)
Overseas operations	548	575	608	608	10.9%	5.7%
Operating profit	11	30	8	42	(27.3%)	(73.3%)
Operating profit margin (%)	0.6%	1.6%	0.4%	2.3%	(0.2%)	(1.1%)
EBITDA**	185	199	173	207	(6.5%)	(13.1%)
EBITDA Margin (%)	10.3%	10.4%	9.3%	11.1%	(1.0%)	(1.1%)

Note:

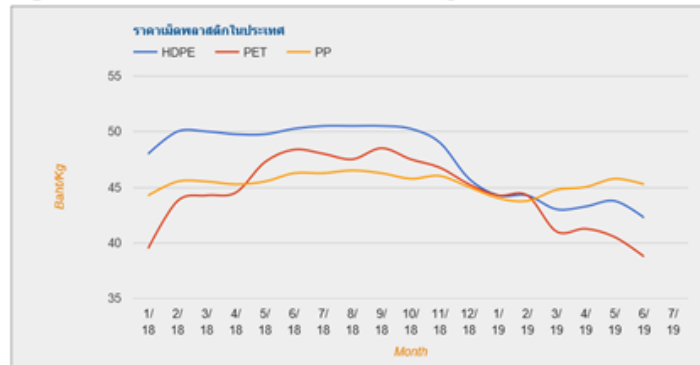
*Restated sales according to TFRS 15

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

★Excluding effect of compensation under the new labour law

Operating profit of Industrial Business Products decreased from Q2/2018 and Q1/2019 and operating profit margin decreased from 0.6% in Q2/2018 and 1.6% in Q1/2019 to 0.4%, while EBITDA margin decreased from 10.3% in Q2/2018 and 10.4% in Q1/2019 to 9.3%. This was mainly due

to the decrease in gross profit of domestic operations resulting from the reduction in selling prices in response to the decrease in raw material prices. Our major raw materials are 1) HDPE 2) PET and 3) PP whose prices shows a decreasing trend (shown in Figure 3). Consequently, our selling prices were adjusted and reduced amid the price competition and market slowdown, which resulted in a decrease in sales quantity. While wages increased due to the Company's annual wage raise, selling and administrative expenses decreased in less proportion than the decrease in gross profit.

Figure 3: Trend of main raw materials historical price from 2018


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

2.2 Moulds and Other Business Line

Q2/2019 sales of the Moulds and Other Business Line were Baht 40 million, close to Q2/2018 and increased by 122.2% from Q1/2019 due to the delivery of moulds of a subsidiary.

Operating loss of Moulds and Other Business Line was Baht 16 million, increased from Baht 13 million loss in Q2/2018, but

decreased from Baht 17 million loss in Q1/2019. Operating loss margin was 40.0% from loss margin 33.3% in Q2/2018 and 94.4% in Q1/2019. EBITDA margin was negative 30.0% mainly due to the effect of the compensation adjustment under the new labour law.

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

(Unit: Million Baht)	Q2/2018	Q1/2019	Q2/2019	Q2/2019★	%YoY +/(-)	%QoQ +/(-)
Sales	39*	18	40	40	2.6%	122.2%
Domestic operations	34	15	37	37	8.8%	146.7%
Overseas operations	5	3	3	3	(40.0%)	0.0%
Operating profit (loss)	(13)	(17)	(16)	(8)	23.1%	(5.9%)
Operating profit (loss) margin (%)	(33.3%)	(94.4%)	(40.0%)	(20.0%)	(6.7%)	54.4%
EBITDA**	(10)	(13)	(12)	(4)	20.0%	(7.7%)
EBITDA Margin (%)	(25.6%)	(72.2%)	(30.0%)	(10.0%)	(4.4%)	42.2%

Note:

*Restated sales according to TFRS 15

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

★Excluding effect of compensation under the new labour law

3. Financial Position

As at 30 June 2019, compared with the end of 2018, total assets decreased which comprised the key items as follows:

➤ Trade receivables increased by Baht 19 million from customers of beverage packaging products in Q2/2019 in line with the expansion of sales.

➤ Inventories decreased by Baht 222 million from the policy of production based on orders received from customers in order to reduce stocking up inventories of the Group.

➤ Property, Plant and Equipment decreased by Baht 380 million as a result of depreciation and amortization netted with additional acquisition of assets during the period. Total liabilities decreased by Baht 441 million which comprised the key items as follows:

➤ Trade payable decreased by Baht 95 million from stock management.

➤ Short-term loans decreased by Baht 76 million and long-term loans decreased by Baht 399 million due to repayment without additional debt.

Total shareholders' equity decreased by Baht 281 million from exchange rate differences on translation of financial statements in foreign currency, dividend payment during the period, and operating result.

4. Cash flow

The Group had a decrease in cash and cash equivalents compared to six-month period of 2018 as follows:

➤ Increase in cash flow from operating activities compared with last year mainly due to the management of reduction of inventories.

➤ Decrease in cash flow used in investment activities compared with last year due to acquisition of assets since the end of previous year and postponement of investment.

Table 5: Key items in Statement of financial position

(Unit: Million Baht)	31 Dec 18	30 Jun 19	Increase (Decrease)
Trade receivables	2,072	2,091	19
Inventories	1,772	1,550	(222)
Property, plant and equipment	4,909	4,529	(380)
Total assets*	10,239	9,517	(722)
Trade payables	1,022	927	(95)
Short-term loans	2,156	2,080	(76)
Long-term loans	1,872	1,473	(399)
Total liabilities*	5,814	5,373	(441)
Total shareholders' equity*	4,425	4,144	(281)

Note:

*Total lines extracted from Statements of Financial Position

Table 6: Cash flow statement

(Unit: Million Baht)	6 months	
	2018	2019
Net cash flows from operating activities	441	576
Net cash flows used in investing activities	(91)	(72)
Net cash flows used in financing activities	(373)	(591)
Net increase (decrease) in cash and cash equivalents	(23)	(87)

➤ Increase in cash flow used in financing activities compared with last year, due mainly to repayment of short term and long term loans.

As at 30 June 2019, the Group still has available unused credit facilities totaling more than Baht 4 billion comprising overdraft facilities, and revolving credit lines. As such, the Group is confident that it has sufficient cash flow for its operations.

5. Key Financial Ratios

Liquidity Ratio

Liquidity ratio as at end of Q2/2019 was very close to Q2/2018 and Q1/2019 being 1.0 time and 1.1 times, respectively and showing that current assets were sufficient against payment of current liabilities.

Working Capital Ratios

Cash Cycle as at the end of Q2/2019 was 110.6 days, shorter than that the end of Q2/2018 and Q1/2019 being 117.7 days and 111.4 days, respectively, due to:

➤ As at the end of Q2/2019, the average number of days for Trade Receivables equaled to 83.3 days, an increase compared with the end of Q2/2018 and Q1/2019 being 82.6 days and 81.8 days, respectively. This is due to decrease in sales, whereas the payment of debtors in industrial and household products were slower.

➤ As at the end of Q2/2019, the average number of days for Inventories equaled to 67.8 days, a decrease compared with the end of Q2/2018 and Q1/2019 being 81.4 days and 68.5 days, respectively. 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 Q2/2019, the average number of days for Trade Payables equaled to 40.5 days, a decrease compared with the end of Q2/2018 being 46.3 days, but increase compared with the end of Q1/2019 being 38.8 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 Q2/2019 was a loss 1.6%, a decrease compared with the end of Q2/2018

Table 7: Key Financial Ratios

Description	Unit	Q1/2018	Q1/2019	Q2/2019
Liquidity Ratio				
Current Ratio	Times	1.0	1.1	1.0
Working Capital Ratios				
Collection Period	Days	82.6	81.8	83.3
Inventory Turnover Period	Days	81.4	68.5	67.8
Payment Period	Days	46.3	38.8	40.5
Cash Cycle	Days	117.7	111.4	110.6
Profitability Ratios				
Return on Equity	%	0.9	0.2	(1.6)
Return on Operating Assets	%	0.7	0.2	(1.4)
Financial Structure Ratios				
Debt to Equity	Times	1.4	1.3	1.3
Net Interest Bearing Debt to Equity	Times	0.9	0.8	0.8

and Q1/2019 being profit 0.9% and 0.2%, respectively, corresponding to the operating loss and the effect of additional legal severance pay rate to 400 days for employees who have worked for an uninterrupted period of twenty years or more.

➤ Return on Operating Assets, as at the end of Q2/2019 was a loss 1.4%, a decrease compared with the end of Q2/2018 and Q1/2019 being profit 0.7% and 0.2%, respectively, corresponding to the operating loss.

Financial Structure Ratios

➤ The Group had Debt to Equity ratio as at the end of Q2/2019 of 1.3 times, close to the end of Q2/2018 and Q1/2019. This is due to an overall decrease in debts resulting from a decrease in outstanding balance of loans, while total shareholders' equity decreased, resulting from annual dividend payment and operating loss.

➤ Net interest bearing debts to equity of the Group at the end of Q2/2019 was 0.8 times, close to Q2/2018 and Q1/2019 being 0.9 times and 0.8 times, respectively as a result of the decrease in proportion of interest-bearing debts and the decrease in shareholders' equity.

6. Significant Event during Q2/2019

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

Labour Protection ACT (No.7), B.E.2562 (2019)

On 5 April 2019, the Labour 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 on 5 May 2019. This change is considered a post-employment benefits plan amendment. The Group recognizes the effect of such change as expenses of Baht 61 million immediately in the comprehensive income statement for the period in which the law is effective. The effect is shown in the table.

Post-employment benefits plan amendment	(Unit: Million Baht)
Cost of sales	35
Selling and distribution expenses	13
Administrative expenses	13
Total	61

7. Business outlook in the second half year

7.1 Plastic Business Line

Household Products

Trade war, the global economic slowdown, as well as the Thai Baht appreciation could have an impact on the export sector, while political stability and the ability to implement new policies by the government may affect domestic sales. However, the Group has developed the Melamine of Things products, which represent the creation of new innovative products using eco-friendly or natural materials benefit to the environment to meet the market needs. The

Group has also introduced new marketing channels such as e-commerce via social media, to serve new market competition. In addition, there will be a major festival in India during the second half of the year which would generate more sales. All would be a good opportunity to prosper in sales.

Industrial Products

Beverage packaging products may face lower sales due to the rainy season in the third quarter, sales will increase in the fourth quarter particularly during festive season whereby beverage operators will create more sales promotion. In addition, the prospect of beverage packaging products in Vietnam is bright with constant sales growth, in line with economic growth and strong support by the Vietnamese government to boost the economy. Therefore, it is very beneficial to the growth of our subsidiaries in Vietnam. The business expansion of our customers as well as better management of raw material price also contribute to a decent outlook.

The development of food packaging products with customers is in the pipeline in order to produce biodegradable/compostable packaging products.

Other product groups may still be affected by the economic slowdown and the ability to implement new policies by the new government including the acceleration of the budget allocation, impacting on investment by private sector and government funded projects.

7.2 Moulds and Other Business Line

Sales remain stable due to the economic situation and the automotive industry outlook.

Please be informed accordingly.

Yours faithfully,

Srithai Superware Public Company Limited

Chaiwat Kulphattaravanich

Director and Company Secretary