



29 October 2019

At: ACC/HO 023/19

Re: Management Discussion and Analysis for the Quarter of 3/2019

To: President  
The Stock Exchange of Thailand

In the third quarter of 2019, there were concern on the contraction of the Thai economy. The economic growth inclined to be slower than forecasted which was mainly due to the trade tensions and the weakening of economy worldwide. Particularly, the export sector has been affected in accordance with the economies of major trading partners and the declining global trade volumes. This has begun to have further effects across all sectors, especially to domestic demand. Private consumption has tended to slow down due to lower income and employment rate, especially in the export sector. In addition, consumers' purchasing power is still affected by high household debt and low agricultural prices. The tourism sector has also been slowing down, partly due to the effects of the rainy season and flooding in the northeastern region. However, the government has implemented various measures to stimulate the Thai economy, such as the state welfare card and the 'Eat, Shop and Spend' project.

The performance of the company in the third quarter, which is usually the low season for retail businesses, has also been impacted by several of Thailand's economic indicators including the consumers' confidence index which hit the lowest in 38 months, the floods in upcountry, as well as the high-base impact of television sales hike in third quarter of 2018. As a result, the sales growth in this quarter did not meet the target. Nonetheless, the company has continuously undertaken various promotional activities to prompt customers' spending, such as organizing the HomePro Fair at Muangthong Thani and in Hat Yai, as well as the "23<sup>rd</sup> Anniversary Day" campaign during 29<sup>th</sup> August – 29<sup>th</sup> September 2019. This resulted in the company having total income and net profit in the first nine-month period of Baht 50,493.89 million and Baht 4,428.72 million respectively, increasing 3.35% and 12.78% from the previous year.

For the subsidiaries, Mega Home business has a stable sale, while the operating performance of the HomePro business in Malaysia was affected by the high-base impact of Goods and Services Tax (GST) abolition in 2018. However, the subsidiaries have continuously improved operational efficiency through improvements in gross margin rates, as well as continuing to focus on cost efficiency.

For stores expansion in the third quarter, the company opened 1 new store of HomePro in Mukdahan and 1 HomePro S at Samyan Mitrtown. As of the third quarter of 2019, the Company operated 84 HomePro stores, 9 HomePro S stores, 12 Mega Home stores and 6 HomePro stores in Malaysia.

The financial results of the Company and its subsidiaries for the three-month and nine-month periods, ended 30 September 2019 which has been reviewed by auditor are as follows:

Table 1: Financial Summary for the 3<sup>rd</sup> quarter of the year 2019 and 2018

	Q3'2019	Q3'2018	Increase (Decrease)	% Change
Sales income	15,219.71	15,400.82	(181.11)	(1.18%)
Rental and service income	666.38	598.17	68.22	11.40%
Other income	489.38	494.97	(5.59)	(1.13%)
<b>Total revenues</b>	<b>16,375.47</b>	<b>16,493.95</b>	<b>(118.48)</b>	<b>(0.72%)</b>
Cost of sales	11,094.43	11,321.71	(227.28)	(2.01%)
<b>Gross profit</b>	<b>4,125.28</b>	<b>4,079.12</b>	<b>46.17</b>	<b>1.13%</b>
Cost of rental and service	346.28	351.39	(5.11)	(1.45%)
Selling and administrative expenses	3,004.88	3,037.44	(32.56)	(1.07%)
<b>Profit before finance cost and income tax expenses</b>	<b>1,929.88</b>	<b>1,783.42</b>	<b>146.46</b>	<b>8.21%</b>
Finance cost	99.76	95.39	4.37	4.58%
Income tax expenses	347.88	322.22	25.66	7.96%
<b>Profit for the period</b>	<b>1,482.25</b>	<b>1,365.82</b>	<b>116.44</b>	<b>8.52%</b>

The Company's net profit for the third quarter of year 2019 was Baht 1,482.25 million representing an increase of Baht 116.44 million or up by 8.52% over the same period last year. The main reasons include:

- Total revenues were Baht 16,375.47 million, a decrease of Baht 118.48 million or down by 0.72%, comprising of the following:
  - Sales income was Baht 15,219.71 million, a decrease of Baht 181.11 million or down by 1.18% from the underachieving same store sales growth of HomePro and HomePro in Malaysia while Mega Home's same store sales growth was flatted.
  - Rental and service income amounted to Baht 666.38 million, an increase of Baht 68.22 million or up by 11.40%, which resulted from higher rental income from Market Village and leasable areas of HomePro's stores, and income from "Home Service".

- Other income was Baht 489.38 million, a decrease of Baht 5.59 million or down by 1.13% due to the dropping income from promotional activities with suppliers.
- 2. Gross profit was Baht 4,125.28 million, an increase of Baht 46.17 million or up by 1.13% over the same period last year. Despite the increasing transportation costs, the gross profit margin as a percentage of sales has increased from 26.49% in the previous year to 27.10% due to change in product sales mix of general merchandise and the enhancement of directly sourced private-label goods, as well as the continuous efficiency improvement in product purchase planning of HomePro, Mega Home, and HomePro in Malaysia.
- 3. Cost of rental and service was Baht 346.28 million, a decrease of Baht 5.11 million or down by 1.45% due to the lower operating cost of Market Village business.
- 4. Selling and administrative expenses (SG&A) amounted to Baht 3,004.88 million, a decrease of Baht 32.56 million or down by 1.07% as compared with the same period of previous year. The decreased factors were mainly expenses associated with operating performance, depreciation cost, maintenance cost, and marketing expenses. However, the transportation and utility costs were in the rising trend. SG&A as a percentage of sales remained close to the same level at 19.72% compared to the previous year at 19.74%.
- 5. Finance cost was Baht 99.76 million, an increase of Baht 4.37 million or up by 4.58%, due to the new bond issued in the second half of year 2018.
- 6. Income tax expenses were Bath 347.88 million, an increase of Baht 25.66 million or up by 7.96% as compared to the previous year. This was due to the higher earnings before tax.

Table 2: Financial Summary for the nine-month period of the year 2019 and 2018

Unit: Million Baht

	9M'2019	9M'2018	Increase (Decrease)	% Change
Sales income	47,046.01	45,720.21	1,325.80	2.90%
Rental and service income	1,951.89	1,748.52	203.37	11.63%
Other income	1,496.00	1,390.28	105.72	7.60%
<b>Total revenues</b>	<b>50,493.89</b>	<b>48,859.00</b>	<b>1,634.89</b>	<b>3.35%</b>
Cost of sales	34,549.65	33,766.52	783.12	2.32%
<b>Gross profit</b>	<b>12,496.36</b>	<b>11,953.69</b>	<b>542.68</b>	<b>4.54%</b>
Cost of rental and service	1,131.37	1,050.39	80.98	7.71%
Selling and administrative expenses	9,040.16	8,912.23	127.93	1.44%
<b>Profit before finance cost and income tax expenses</b>	<b>5,772.72</b>	<b>5,129.86</b>	<b>642.85</b>	<b>12.53%</b>
Finance cost	315.51	291.67	23.84	8.17%
Income tax expenses	1,028.49	911.34	117.15	12.85%
<b>Profit for the period</b>	<b>4,428.72</b>	<b>3,926.85</b>	<b>501.87</b>	<b>12.78%</b>

The Company's net profit for the nine-month period of year 2019 was Baht 4,428.72 million representing an increase of Baht 501.87 million or up by 12.78% over the same period last year. The main reasons are as follows:

- Total revenues were Baht 50,493.89 million, an increase of Baht 1,634.89 million or up by 3.35%, comprising of the following:
  - Sales income was Baht 47,046.01 million, an increase of Baht 1,325.80 million or up by 2.90%, which was driven by same store sales growth of HomePro and Mega Home as well as sales from new stores of HomePro.
  - Rental and service income amounted to Baht 1,951.89 million, an increase of Baht 203.37 million or up by 11.63%, which resulted from higher rental income from Market Village and leasable areas of HomePro's stores, including areas for organizing promotional events with suppliers, as well as income from "Home Service".
  - Other income was Baht 1,496.00 million, an increase of Baht 105.72 million or up by 7.60% due to the increase of income from promotional activities with suppliers, interest received, and miscellaneous income.

2. Gross profit was Baht 12,496.36 million, an increase of Baht 542.68 million or up by 4.54% over the same period last year. The gross profit margin as a percentage of sales has increased from 26.15% in previous year to 26.56% due to change in product sales mix of general merchandise and the enhancement of directly sourced private-label goods, as well as the continuous efficiency improvement in product purchase planning of HomePro, Mega Home, and HomePro in Malaysia.
3. Cost of rental and service was Baht 1,131.37 million, an increase of Baht 80.98 million or up by 7.71% due to the higher cost for providing the "Home Service" program.
4. Selling and administrative expenses (SG&A) amounted to Baht 9,040.16 million, an increase of Baht 127.93 million or up by 1.44% as compared with the previous year. The amount increases were mainly driven by the rise in personnel expenses, rental cost, utility cost, merchant fees, maintenance cost, and marketing expense. However, SG&A as a percentage of sales has marginally improved, resulting in the decrease from 19.49% in the previous year to 19.22%. This decrease was due to the improvement in cost efficiency management.
5. Finance cost was Baht 315.51 million, an increase of Baht 23.84 million or up by 8.17%, due to the new bond issued in the second half of year 2018.
6. Income tax expenses were Bath 1,028.49 million, an increase of Baht 117.15 million or up by 12.85% as compared with the previous year. This was due to higher earnings before tax.

Please be informed accordingly.

Sincerely yours,

(Ms.Wanee Juntamongkol)

Senior Vice President – Accounting and Finance