

Nov 9, 2018

Subject Management Discussion and Analysis for the period of three months and the period of 1st half ended 30th September 2018

To President of the Stock Exchange of Thailand
Secretary of the Office of Securities and Exchange Commission

Lohakit Metal Plc. (the "Company") would like to notify the financial status and operating performance for the period of three months and the period of 1st half ended 30th September 2018 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For the period of three months ended 30 th Sept				For the period of 1st half ended 30 th Sept			
	July - Sept 2018	July - Sept 2017	Change	% Change	Apr - Sept 2018	Apr - Sept 2017	Change	% Change
Revenue from sales & service	844.39	927.44	-83.05	-9.0%	1,698.16	1,737.91	-39.75	-2.3%
Other income	7.79	8.03	-0.24	-3.0%	12.82	14.42	-1.60	-11.1%
Total revenue	852.18	935.47	-83.29	-8.9%	1,710.98	1,752.33	-41.35	-2.4%
Cost of goods sold & service	741.76	802.70	-60.94	-7.6%	1,485.01	1,503.52	-18.51	-1.2%
Selling expenses	16.73	16.84	-0.11	-0.7%	32.83	31.67	1.16	3.7%
Administrative expenses	28.30	25.28	3.02	12.0%	55.83	50.95	4.88	9.6%
Total expenses	786.79	844.82	-58.03	-6.9%	1,573.67	1,586.14	-12.47	-0.8%
Earning before interest and tax	65.39	90.65	-25.26	-27.9%	137.31	166.19	-28.88	-17.4%
Financial expenses	-1.30	-1.38	0.08	-5.8%	-2.63	-3.03	0.40	-13.2%
Share of income from investment in associate	0.40	0.40	0.00	0.0%	0.82	0.66	0.16	24.2%
Corporate Income tax expenses	-12.72	-17.77	5.05	-28.4%	-26.83	-32.60	5.77	-17.7%
Net profit for the period	51.77	71.90	-20.13	-28.0%	108.67	131.22	-22.55	-17.2%
Profit Sharing for non-controlling interest of a subsidiary company	-14.47	-15.85	1.38	-8.7%	-28.05	-28.45	0.40	-1.4%
Net profit for the company and its subsidiaries	37.30	56.05	-18.75	-33.5%	80.62	102.77	-22.15	-21.6%

1. Operating Performance

For the period of three months ended 30th Sept 2018, the net profits for the company and its subsidiaries was Baht 37.30 million or decreased by 18.75 million which was -33.5 percent, the results for the current three-month period was better when comparing to the same period of the previous year. This was due to lower sales compared to the same quarter of last year, mainly due to the fact that some special projects using galvanized steel and alumina in the previous year have ended and the competition has intensified in the stainless pipe product. As a result, sales and gross margin declined in the current quarter. While administrative expenses have increased as normal.

For the period of 1st half ended 30th Sept 2018, the Company and its subsidiaries reported operating profit of Baht 137.31 million, a decrease of 17.40% and net profit of Baht 80.62 million or decreased by 21.6% while compared to the same period of last year which the net profit was Baht 102.77 million. Net profit decreased for the first half due to lower average selling price of raw material, projects in the previous year ended and the increased competition in the stainless pipe group.

1.1 Revenue

For the period of three months ended 30th Sept 2018, the Company and its subsidiaries had revenue from sales and service of Baht 844.39 million compared with Baht 927.44 million in the same period of the previous year, which decreased by 9.0 percent. The decrease in sales was due to lower overall sales volume in some product groups such as galvanized steel, aluminum and stainless steel pipes.

The sales of company and its subsidiaries mostly came from Copper, Aluminum and Stainless products.

For the period of 1st half of year ended 30th Sept 2018, the Company and its subsidiaries had revenue from sales and service of Baht 1,698.16 million compared with Baht 1,737.91 million in the same period of the previous year or slightly decreased by 2.3 percent.

1.2 Other income

Other income consists of interest income, gain from asset sales and revenue from scrap sales. For the period of three months and period of 1st half ended 30th Sept 2018, the Company and its subsidiaries had other income of Baht 7.79 million and 12.82 million baht respectively, which decreased by 3.0 percent and 11.1 percent from the same periods of previous year. The significant other income is income from scrap sales which were the results from the processing of cold rolled stainless steel sheet and coil such cut to length as per customers' requirements. The Company and its subsidiaries therefore sold scrap and recorded as the other income.

1.3 Cost of goods sold

Major cost of goods sold are cost of raw material such cold rolled stainless steel sheet and coil and special grade stainless which the Company and its subsidiaries process. For the period of three months ended 30th Sept 2018, the Company and its subsidiaries had cost of goods sold of Baht 741.76 million, or stood at 87.04 percent of the total revenue, decrease in comparing with Baht 802.70 million or stood at 85.81 percent of total revenue of previous year. However, cost of good sold for the period of three months ended 30th Sept 2018 decreased by 7.6 percent, saving by the lower decrease in cost than the decrease in sales & services by 9.0 percent from the same period of previous year.

For the period of 1st half ended 30th Sept 2018, the Company and its subsidiaries had cost of goods sold of Baht 1,485.01 million, or stood at 86.79 percent of the total revenue in comparing with Baht 1,503.52 million, or stood at 85.81 percent of total revenue of previous year.

1.4 Selling expenses

Selling expenses consist of sale staff expenses, transportation expenses, commissions and promotion expenses. For the period of three months and period of 1st half ended 30th Sept 2018, the Company and its subsidiaries had selling expenses of Baht 16.73 million and 32.83 million, compared with selling expenses of Baht 16.84 million and 31.67 million in the same periods of the previous year, or decreased by 0.7 percent for three month period and increased by 3.7 percent for the 1st half year respectively. The majority of selling expense was sale personal expenses annually adjusted as normal.

For the period of three months and 1st half ended 30th Sept 2018, the selling expenses were 1.98 percent and 1.93 percent of total sales and service respectively, compared with 1.82 percent in both same periods of previous year.

1.5 Administrative expenses

Administrative expenses consist of executive expenses and staff expenses other than sale department, office rental expenses and other management and administrative expenses. For the period of three months and period of 1st half ended 30th Sept 2018, the Company and its subsidiaries had administrative expenses of Baht 28.30 million and 55.83 million, compared with administrative expenses of Baht 25.28 million and 50.95 million in the same period of the previous year which increased by 12.0 percent and increase by 9.6 percent respectively. The major expenses are mainly in area of personnel costs due to salary normally increased year by year and other administrative expenses.

1.6 Share of income from investment in associate

In April 2009, the Company invested in the ordinary shares of Mory Lohakit (Thailand) Co.,Ltd. ,who is the marketing and sale force for the company and its subsidiaries and joint venture, by holding 49 percent of total shares. As for the period of three months and 1st half year ended 30th Sept 2018, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.40 million and 0.82 million in consolidated income statements in which no change for three month period and increased by 24.2 percent for 1st half year respectively in comparison with the same period of previous year.

1.7 Earning (loss) before interest and tax and Net Profit (loss)

For the period of three months and period of 1st half ended 30th Sept 2018, the Company and its subsidiaries had earning before interest and tax of Baht 65.39 million and Baht 137.31 million respectively. After deducting the financial costs of Baht -1.30 million and Baht -2.63 million, adding the share of income from investment of Baht 0.40 million and Baht 0.82 million, deducting the corporate income tax of Baht -12.72 million and Baht -26.83 million, the net profit of the Company and its subsidiaries were at Baht 51.77 million and Baht 108.67 million. When comparing to the same periods of the previous year, the earning before interest and tax and net profit for the period of the three months were both decreased by -27.9 percent and by -33.5 percent respectively, whereas the earning before interest and tax and net profit for the period of 1st half were both decreased by -17.4 percent and -21.6 percent respectively.

In addition to the period of three month and period of 1st half ended 30th Sept 2018, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 14.47 million and 28.05 million respectively. The lower profit sharing was due to the lower in net profit of a subsidiary. As a result, the net profit for the company and its subsidiary were amount of Baht 37.30 million and 80.62 million respectively.

1.8 Corporate income tax

For the period of three month and 1st half of year ended 30th Sept 2018, the Company and its subsidiaries recognized corporate tax expenses by Baht 12.72 million and 26.83 million, decrease from the same period of previous year of Baht 17.77 million and 32.60 million as the result of lower operating profit.

1.9 Profit Sharing for non-controlling interest of a subsidiary company

On Oct 1' 2010, the company sold partial investment in a subsidiary company to Japanese alliance. The Company and its subsidiaries recognized profit sharing to minority shareholders according to the percentage of shareholding of net profit in subsidiary through the period of its holding which was amount by Baht 14.47 million and 28.05 million for the period of three month and 1st half year ended 30th Sept 2018.

1.10 Profitability

For the period of three months ended 30th Sept 2018, the Company and its subsidiaries had gross profit margin of 12.15 percent, compared with gross profit margin of 13.45 percent in the same period of the previous year. This was mainly due to lower sales in the higher margin segment like stainless steel and lower in overall sales.

For the period of 1st half ended 30th Sept 2018, the Company and its subsidiaries had gross profit margin of 12.55 percent compared with gross profit margin of 13.49 percent in the same period the previous year. The gross profit margin decreased by Baht -21.24 million.

(Unit: Baht million)

Consolidated balance sheets	As at 30 th Sep 2018		As at 31 st Mar 2018	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	247.68	10.59%	488.97	20.70%
Short-term investment	4.36	0.19%	4.85	0.21%
Account receivable, trade and others	752.20	32.15%	706.03	29.89%
Inventories	732.56	31.31%	663.32	28.08%
Other current assets	10.59	0.45%	3.24	0.14%
Total current assets	1,747.39	74.69%	1,866.41	79.02%
Non-current assets				
Restricted bank deposits	46.18	1.97%	46.18	1.96%
Investment in associate	8.35	0.36%	12.43	0.53%
Long-term investment	3.02	0.13%	2.76	0.12%
Property, plant and equipment	514.04	21.97%	412.07	17.45%
Intangible assets	0.46	0.02%	0.57	0.02%
Deferred tax assets	16.21	0.70%	17.90	0.76%
Other non-current assets	3.84	0.16%	3.71	0.16%
Total non-current assets	592.10	25.31%	495.62	20.98%
TOTAL ASSETS	2,339.49	100.00%	2,362.03	100.00%
LIABILITIES				
Current liabilities				
Short term loans from banks	121.10	5.18%	35.84	1.52%
Account payables, trade and others	479.39	20.49%	563.80	23.87%
Income tax payable	24.69	1.06%	30.95	1.31%
Other current liabilities	4.32	0.18%	10.33	0.43%
Total current liabilities	629.50	26.90%	640.92	27.13%
Non-current liabilities				
Provision for long-term employee benefits	38.61	1.65%	36.51	1.55%
Total non-current liabilities	38.61	1.65%	36.51	1.55%
TOTAL LIABILITIES	668.11	28.56%	677.43	28.68%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	16.37%	383.00	16.22%
Premium on stock	519.67	22.21%	519.67	22.00%
Retained earnings				
Legal reserve	74.70	3.19%	74.10	3.14%
Un-appropriated	478.05	20.44%	493.53	20.89%
Non-controlling interest of the subsidiary	215.96	9.23%	214.30	9.07%
Total shareholders' equity	1,671.38	71.44%	1,684.60	71.32%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,339.49	100.00%	2,362.03	100.00%

2. Financial Status

2.1 Assets

As for the assets value as at 30th September and 31st March 2018, the Company and its subsidiaries had total assets of Baht 2,339.49 million and Baht 2,362.03 million respectively. The increase was Baht 22.57 million, mainly increased in account receivable, inventories and new land with building thereon. The Company and its subsidiaries operated integrated stainless center which provided many kinds of services such as procurement, transformation, manufacture and stainless products wholesale and a subsidiary who is the finish goods trader of metal and non-ferrous metal. Therefore, the Company and its subsidiaries' major assets are inventories, account receivables, land, plant and equipment as details below:

- 2.1.1 Inventories: As at 30th September and 31st March 2018 the Company and its subsidiaries had net inventories of Baht 732.56 million (or 31.31 percent of total assets) and Baht 663.32 million (or 28.08 percent of total assets) respectively. The increase in inventories was mainly material, preparing for upcoming sales.
- 2.1.2 Trade account receivables – other parties: As at 30th September and 31st March 2018, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 752.20 million (or 32.15 percent of total assets) and Baht 706.03 million (or 29.89 percent of total assets) respectively. Trade receivables increased due to the higher sales in last quarter.
- 2.1.3 Land, plant and equipments - Land and improvements, building, machinery, office equipments, vehicles and work on progress of construction: As at 30th September and 31st March 2018, the Company and its subsidiaries had Land, plant and equipments – net of Baht 514.04 million (or 21.97 percent of total assets) and Baht 412.07 million (or 17.45 percent of total assets) respectively. In the latest quarter, a subsidiary has purchased land with a building worth 125 million baht to expand its production area, warehouse and delivery. The building is still in the process of preparing for readiness to use in the next phase.
- 2.1.4 Restricted bank deposit: As at 30th September and 31st March 2018, the Company and its subsidiaries had net value of Baht 46.18 million (or 1.97 percent of total assets and 1.96 percent of total assets) respectively. The restricted fix deposit by a subsidiary was used as guarantee for loans from financial institution.
- 2.1.5 Deferred tax assets: As at 30th September and 31st March 2018, the Company and its subsidiaries had net value of Baht 16.21 million and Baht 17.90 million respectively (0.70 percent and 0.76 percent of total assets respectively).

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as at 30th September and 31st March 2018 stood at Baht 668.11 million and Baht 677.43 million respectively. The decrease in liabilities was from trade accounts creditors from more purchase of raw materials.

2.3 Shareholders' equity

As at 30th September and 31st March 2018, shareholders' equity was Baht 1,671.38 million and Baht 1,684.60 million respectively. The major changes were during the period were from the net profit amounting to Baht 108.67 million and dividend payment of Baht -122.15 million. Therefore, portions of company shareholding interest and non-controlling interest of subsidiary stood at Baht 1,455.42 million and Baht 215.96 million respectively.

Debt to Equity ratio as at 30th September and 31st March 2018 were both 0.40 times.

(Unit: Baht million)

Consolidated cash flows statement	As at 30th Sep 2018	As at 30th Sep 2017
Net cash from (used in) operating activities	-79.25	87.92
Net cash used in investing activities	-125.16	-5.77
Net cash from (used in) financing activities	-36.89	-32.94
Effect of exchange rate to cash and cash equivalent	-	-0.13
Net increase (decrease) in cash	-241.30	49.08

3. Cash flows

For the year ended 30th September 2018, the Company and its subsidiaries generated net increase in cash from operating activities of Baht -79.25 million, consisting of baht 125.21 million positively from operating performance and net negative working capital of Baht -204.46 million. Most negative in working capital was from the payment of trade creditors and financing the growth of account receivable and inventories.

Net cash flow from investing activities was -125.16 million baht, with a main investment in new land with building and equipment of -131.27 million baht. There was cash received from dividend from related company by 4.94 million.

The financing part was net Baht -36.89 million by drawing up short term loan 85.26 million and payment of dividend by Baht -122.15 million.

In total, net cash for the year was increased by Baht -241.30 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)
Deputy Managing Director