

Aug 11, 2020

Subject Management Discussion and Analysis for the period of three months ended 30th June 2020

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 ended 30th June 2020 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For the period of three months ended 30th June			
	Apr 2020 - June 2020	Apr 2019 - June 2019	Change	% Change
Revenue from sales & service	411.58	719.81	-308.23	-42.8%
Other income	5.01	5.57	-0.56	-10.1%
Total revenue	416.59	725.38	-308.79	-42.6%
Cost of goods sold & service	383.13	638.35	-255.22	-40.0%
Selling expenses	10.96	15.50	-4.54	-29.3%
Administrative expenses	27.15	36.60	-9.45	-25.8%
Total expenses	421.24	690.45	-269.21	-39.0%
Earning before interest and tax	-4.65	34.93	-39.58	-113.3%
Financial expenses	-0.66	-1.16	0.50	-43.1%
Share of income from investment in associate	0.09	0.52	-0.43	-82.7%
Income tax expenses	0.82	-6.58	7.40	-112.5%
Net profit for the period	-4.40	27.71	-32.11	-115.9%
Profit Sharing for non-controlling interest of a subsidiary company	1.77	-10.18	11.95	-117.4%
Net profit for the company and its subsidiaries	-2.63	17.53	-20.16	-115.0%

1. Operating Performance

For the period of the first three months ended 30 June 2020, the Company and its subsidiaries recorded a net loss for the company and its subsidiary in the amount of -2.63 million baht, a decrease of 20.16 million baht or a decrease of 115.0 percent. The results of the three months have decreased significantly from the same period last year. The main reason is due to the sales that have decreased considerably according to the epidemic of new coronary virus 2019 (Covid-19) and lockdown in many countries around the world, including Thailand in which drastically affects the domestic consumption, production and export sectors in Thailand. There are various industries that have an impact on the production and supply chain from upstream to their downstream, such as electricity, electronics, automotive and the construction industry in which they are the customers of the company and subsidiaries. The said impact therefore has a significant impact on sales volume both in terms of sales price and gross profit margin of various product groups which are weaker due to the higher production cost per unit from lowest production volume together with the demand decreased and the intense competition. In terms of expenses for the three months, the company and its subsidiaries has taken control and reduced expenses of production, sales and management in all areas that are not urgent to maximize benefits and efficiency.

In addition, the Company and its subsidiaries have recognized the share of loss of non-controlling interests of the subsidiaries in the amount of 1.77 million baht, a decrease of 11.95 million baht from the same period of the previous year. This is due to the loss in operating results of a subsidiary company who is the exhaust pipe manufacturers in the automotive industry, it sales have decreased due to the majority of automotive manufacturers stopped their production in the first three months.

1.1 Revenue

For the period of three months ended 30th June 2020, the Company and its subsidiaries had revenue from sales and service of Baht 411.58 million compared with Baht 719.81 million in the same period of the previous year or decreased by 42.8 percent. This is due to the decrease in sales weight and the average selling price of stainless steel, copper, aluminum products which are coil and sheet and as the main product groups. Selling price has also decreased according to decreased of the manufacturing activities of the major industries that disappeared during the epidemic situation and lockdown, with the sales of the automotive slump and with its higher margin product, being the most affected by a negative of 70.9 percent by compared with the same period last year.

The sales of a new subsidiary company mostly came from Copper and Aluminum whereas stainless products were the main products of Company and its old subsidiaries.

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 ended 30th June 2020, the Company and its subsidiaries had other income of Baht 5.01 million which decreased by 10.1 percent from the same period previous year. The significant other income is income from scrap sales which are 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 products consisting of cold rolled stainless steel sheet, Copper, Aluminum, Brass, Galvanized iron with various type as coil, sheet, pipe and axle. The Company and its subsidiaries procure finish quality product for sales as well as raw material for manufacture to quality product and sales. For the period of three months ended 30th June 2020, the Company and its subsidiaries had cost of goods sold of Baht 383.13 million, or accounting for 91.97 percent of the total revenue in comparing with Baht 638.35 million, or accounting for 88.00 percent of the total revenue of previous year. The cost of goods sold of the company and its subsidiaries decreased by 40.0 percent compared with the same period last year, while revenues from sales and services decreased by 42.8 percent.

1.4 Selling expenses

Selling expenses consist of sale staff expenses, transportation expenses and promotion expenses. For the period of three months ended 30th June 2020, the Company and its subsidiaries had selling expenses of Baht 10.96 million, compared with selling expenses of Baht 15.50 million in the same period of the previous year which decreased by Baht 4.54 million or 29.3 percent due to the reduction and more efficiency control. The selling expenses ratio for the period of three months ended 30th June 2020 was 2.66 percent of sale and service, higher in compared with selling expenses ratio of 2.15 percent of sale and service in the same period of the previous year. This higher selling ratio was mainly due to contraction of sale by 42.8% in the three months.

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 ended 30th June 2020, the Company and its subsidiaries had administrative expenses of Baht 27.15 million, compared with administrative expenses of Baht 36.60 million in the same period of the previous year which decreased by 9.45 percent since the company and subsidiaries have reduced and controlled administrative expenses. In addition, there is no obligation to set up additional one-time employee benefit expenses in the current three months, while such provision was made in the same three months last year.

The other increase is in area of personnel costs due to salary normally increased year by year and other administrative expenses. As such, the administrative expenses for the three months ended 30th

June 2020 was 6.52 percent of total revenue, increase in compared with administrative expenses of 5.05 percent of total revenue in the same period of the previous year.

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 ended 30th June 2020, the company and its subsidiaries recognized share of income , by using equity method, of Baht 0.09 million in consolidated income statements in which decreased by Baht 0.43 million or 82.7 percent in comparison with the same period of previous year.

1.7 Earning (loss) before interest and tax and Net Profit (loss) for the period

For the period of three months ended 30th June 2020, the Company and its subsidiaries had loss before interest and tax of Baht -4.65 million. After deducting the financial expense of Baht 0.66 million and positive income tax of Baht 0.82 million and adding the share of income from investment of Baht 0.09 million, the net loss of the Company and its subsidiaries was at Baht -4.40 million. When comparing to the profit before interest and tax and the net profit of the same period of the previous year which were at Baht 34.93 million and Baht 27.71 million respectively, the loss before interest and tax and net loss of the present period decreased by 113.3 percent and 115.9 percent respectively.

In addition, the company and its subsidiaries had loss sharing to minority interest in a subsidiary for the amount of Baht 1.77 million for the present period or decrease by Baht 11.95 million from the same period of previous year. Therefore, the net loss for the company and its subsidiary for the three months ended as of 30th June 2020 was Baht -2.63 million, decrease by 20.16 Baht million from the same period of previous year.

1.8 Income tax

For the three months ended 30th June 2020, the Company and its subsidiaries recognized tax income by 0.82 million or decreased by 112.5 percent, contrary to income tax expenses by -6.58 million in the same period of previous year. This was mainly due to loss from operations in current three months.

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, Mory Industrial Inc. The Company and its subsidiaries recognized loss sharing to minority shareholders according to the percentage of shareholding of net loss in subsidiary was amount by 1.77 million for the three months period ended 30th June 2020, contrary to Baht -10.18 million of the profit sharing in the same period of previous year.

1.10 Profitability

For the period of three months ended 30th June 2020, the Company and its subsidiaries had gross profit margin of 6.91 percent, reduced by 4.41 percent when compared with gross profit margin of 11.32 percent in the same period of the previous year. This is mainly due to the contracted sales in the main products such as car exhausted pipes with its high gross margin, higher production costs per unit from fixed costs due to the significant reduced production in the quarter as a result of reduced orders from customers.

(Unit: Baht million)

Consolidated balance sheets	As at 30th June 2020		As at 31st Mar 2020	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	228.24	12.04%	211.33	9.98%
Financial Assets (Short-term investment)	84.10	4.43%	107.03	5.05%
Account receivable, trade and others	383.52	20.23%	542.31	25.60%
Inventories	532.97	28.11%	588.75	27.79%
Other current assets	3.00	0.16%	4.04	0.19%
Total current assets	1,231.83	64.97%	1,453.46	68.61%
Non-current assets				
Restricted bank deposits	46.18	2.44%	46.18	2.18%
Investment in associate	11.72	0.62%	11.63	0.55%
Non-Current Financial Assets (Long-term investment)	3.82	0.20%	3.46	0.16%
Property, plant and equipment	577.77	30.47%	581.77	27.46%
Intangible assets	2.28	0.12%	1.74	0.08%
Deferred tax assets	18.94	1.00%	16.90	0.80%
Other non-current assets	3.40	0.18%	3.40	0.16%
Total non-current assets	664.11	35.03%	665.08	31.39%
TOTAL ASSETS	1,895.94	100.00%	2,118.54	100.00%
LIABILITIES				
Current liabilities				
Short term loans from banks	44.07	2.33%	55.72	2.63%
Account payables, trade and others	4.85	0.26%	368.07	17.38%
Income tax payable	3.85	0.20%	6.64	0.31%
Other current liabilities	0.01	0.00%	9.76	0.46%
Total current liabilities	261.68	13.80%	440.19	20.78%
Non-current liabilities				
Provision for long-term employee benefits	44.07	2.33%	43.22	2.04%
Long term loans from banks	4.85	0.26%	0.00	0.00%
Lease payable	3.85	0.20%	0.00	0.00%
Other non-current liabilities	0.01	0.00%	0.00	0.00%
Total non-current liabilities	52.78	2.79%	43.22	2.04%
TOTAL LIABILITIES	314.46	16.59%	483.41	22.82%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	20.20%	383.00	18.08%
Premium on stock	519.67	27.41%	519.67	24.53%
Retained earnings				
Legal reserve	75.25	3.97%	75.25	3.55%
Un-appropriated	435.13	22.95%	439.01	20.72%
Non-controlling interest of the subsidiary	168.43	8.88%	218.20	10.30%
Total shareholders' equity	1,581.48	83.41%	1,635.13	77.18%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,895.94	100.00%	2,118.54	100.00%

2. Financial Status

2.1 Assets

As for the assets value as at and 30th June 2020 and 31st March 2020, the company and subsidiaries had total assets of 1,895.94 million baht and 2,118.54 million baht respectively, with short term investments, trade accounts receivable and inventories decreased at the end of the quarter due to sales and production which dropped considerably. The decrease in overall sales of the company and subsidiaries results in a decrease in the outstanding receivables and inventories. The Company and subsidiaries are principally engaged in the stainless steel coil processing, which consists of procurement, processing, production and distribution of stainless steel products, metal and non-ferrous metals. As such, assets will be in cash, inventories, trade accounts receivable and property, plant and equipment, with details as follows:

- 2.1.1 Inventories: As at and 30th June 2020 and 31st March 2020 the Company and its subsidiaries had net inventories of Baht 532.97 million (or 28.11 percent of total assets) and Baht 588.75 million (or 27.79 percent of total assets) respectively. The decrease in inventories were mainly due to reduced overall raw material procurement and production in the meantime.
- 2.1.2 Trade account receivables – other parties: As at and 30th June 2020 and 31st March 2020, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 383.52 million (or 20.23 percent of total assets) and Baht 542.31 million (or 25.60 percent of total assets) respectively. Trade receivables decreased in following to the lower sales.
- 2.1.3 Financial Assets (Short-term investment): As at and 30th June 2020 and 31st March 2020 the Company and its subsidiaries had short term investment of Baht 84.10 million (or 4.43 percent of total assets) and Baht 107.03 million (or 5.05 percent of total assets) respectively. The higher investment value came from the investment in unit value of mutual fund due to the excessive cash balance of a subsidiary company.
- 2.1.4 Land, plant and equipments - Land and improvements, building, machinery, office equipments, vehicles, right of use and work on progress of construction: As at and 30th June 2020 and 31st March 2020, the Company and its subsidiaries had Land, plant and equipments – net of Baht 577.77 million (or 30.47 percent of total assets) and Baht 581.77 million (or 27.46 percent of total assets) respectively.
- 2.1.5 Restricted bank deposit: As at and 30th June 2020 and 31st March 2020, the Company and its subsidiaries had net value of Baht 46.18 million (or 2.44 percent of total assets and 2.18 percent of total assets) respectively. The restricted fix deposit by a subsidiary was used as guarantee for loans from financial institution.
- 2.1.6 Deferred tax assets: As at and 30th June 2020 and 31st March 2020, the Company and its subsidiaries had net value of Baht 18.94 million and Baht 16.90 million respectively (1.00 percent and 0.80 percent of total assets respectively).

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as of 30th June 2020 and 31st March 2020 were Baht 314.46 million and Baht 483.41 million respectively, with current liabilities decreased as raw materials procurement decreased during this time. However, the company has an increase in long-term liabilities because a subsidiary company has long-term loans from the bank in the amount of 3.85 million baht and the recognition of long-term lease payable in the amount of 4.85 million baht.

2.3 Shareholders' equity

As of 30th June 2020, shareholders equity from the consolidated financial statements was Baht 1,581.48 million, decreased from shareholders' equity as at 31st March 2020 in the amount of 1,635.13 million baht or decrease by 53.65 million baht following the accounting policy adjustments under new applied financial & accounting standards in 2020 by 1.25 Million, total comprehensive loss for the period of -2.63 Million and 3rd party dividends paid-out of a subsidiaries by 48.00 million baht. The equity of the company and the minority shareholders of the subsidiaries have outstanding value of 1,413.05 and 168.43 million baht respectively.

Debt to Equity ratio as at and 30th June 2020 and 31st March 2020 were 0.20 and 0.30 times respectively. The lower D/E ratio was due to smaller current liabilities as a result of smaller size of business transactions in the latest quarter.

(Unit: Baht million)

Consolidated cash flows statement	As at 30th June 2020	As at 30th June 2019
Net cash from (used in) operating activities	63.30	41.70
Net cash used in investing activities	21.26	-6.38
Net cash from (used in) financing activities	-67.53	-47.32
Effect of exchange rate to cash and cash equivalent	-0.11	-0.02
Net increase (decrease) in cash	16.92	-12.02

3. Cash flows

For the quarter ended 30th June 2020 and 2019, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 63.30 million, consisting of baht 7.32 million positively from operating performance and net positive from lesser utilized working capital of Baht 55.98 million. The smaller business in this quarter generated net positive cash flow in working capital from operation.

Net cash flow from investing activities was amount to 21.26 million baht, mostly from net positive in short term investment by 23 million baht.

The financing part was net Baht -67.53 million by settlement of short term loan -26.75 million and payment of dividend by Baht -48.00 million while there was long term loan from bank of a subsidiary by Baht 8.00 million.

In total, net cash for the period was increased by Baht 16.92 million.

Sincerely yours,

(Mr. Vittawat Akarapongpisak)
Deputy Managing Director