

Feb 12, 2019

Subject Management Discussion and Analysis for the periods of three months and nine months ended 31st December 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 periods of three months and nine months ended 31st December 2018 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For three months ended 31 st December				For nine months ended 31 st December			
	July - Sept 2018	July - Sept 2017	Change	% Change	Apr - Dec 2018	Apr - Dec 2017	Change	% Change
Revenue from sales & service	791.59	793.67	-2.08	-0.3%	2,489.75	2,531.58	-41.83	-1.7%
Other income	7.46	9.58	-2.12	-22.1%	20.29	23.59	-3.3	-14.0%
Total revenue	799.05	803.25	-4.20	-0.5%	2,510.04	2,555.17	-45.13	-1.8%
Cost of goods sold & service	692.70	674.63	18.07	2.7%	2,177.71	2,178.15	-0.44	0.0%
Selling expenses	17.50	15.98	1.52	9.5%	50.33	47.65	2.68	5.6%
Administrative expenses	27.89	25.39	2.50	9.8%	83.72	75.93	7.79	10.3%
Total expenses	738.09	716.00	22.09	3.1%	2,311.76	2,301.73	10.03	0.4%
Earning before interest and tax	60.96	87.25	-26.29	-30.1%	198.28	253.44	-55.16	-21.8%
Financial expenses	-1.67	-1.22	-0.45	36.9%	-4.30	-4.25	-0.05	1.2%
Share of income from investment in associate	0.65	0.58	0.07	12.1%	1.47	1.24	0.23	18.5%
Corporate Income tax expenses	-11.67	-17.27	5.60	-32.4%	-38.51	-49.88	11.37	-22.8%
Net profit for the period	48.27	69.34	-21.07	-30.4%	156.94	200.55	-43.61	-21.7%
Profit Sharing for non-controlling interest of a subsidiary company	-16.07	-16.29	0.22	-1.4%	-44.12	-44.73	0.61	-1.4%
Net profit for the company and its subsidiaries	32.20	53.05	-20.85	-39.3%	112.82	155.82	-43.00	-27.6%

1. Operating Performance

For the period of three months ended 31st Dec 2018, the net profits for the company and its subsidiaries was Baht 32.20 million or decreased by 20.85 million or -39.3 percent. The results for the current three months period declined when comparing to the same period of the previous year. This is due to the lower sales than in the same quarter of the previous year, affected by the higher intensive competition in stainless steel pipes aluminum and copper in the market and resulting to the decreasing in the selling weight and the overall selling price as well. Eventually, there were the impacts to the lower gross profit in the current quarter as well.

For nine months ended 31st Dec 2018, the Company and its subsidiaries reported operating profit of Baht 198.28 million, a decrease of 21.8% and net profit of Baht 112.82 million or decreased by 27.6% while compared to the same period of last year which the net profit was Baht 155.82 million. Net profit decreased for nine months since the project in the previous year has ended and the average selling price has decreased according to the global raw material price and the increasing competition in the stainless steel pipes , aluminum and copper.

1.1 Revenue

For the period of three months ended 31st Dec 2018, the Company and its subsidiaries had revenue from sales and service of Baht 791.59 million compared with Baht 793.67 million in the same period of the previous year, which decreased by 0.3 percent. The decrease in sales (despite the higher sales volume) was due to the lower average prices in main products like copper, aluminum and stainless pipe following the higher global material price and intensive competition.

The sales of company and its subsidiaries mostly came from copper, aluminum and stainless products.

For nine months of year ended 31st Dec 2018, the Company and its subsidiaries had revenue from sales and service of Baht 2,489.75 million compared with Baht 2,531.58 million in the same period of the previous year or slightly decreased by 1.7 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 nine months ended 31st Dec 2018, the Company and its subsidiaries had other income of Baht 7.46 million and 20.29 million baht respectively, which decreased by 22.1 percent and 14.0 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 31st Dec 2018, the Company and its subsidiaries had cost of goods sold of Baht 692.70 million, or stood at 86.69 percent of the total revenue, decrease in comparing with Baht 674.63 million or stood at 83.99 percent of total revenue of previous year. However, cost of good sold for the period of three months ended 31st Dec 2018 increased by 2.7 percent while the decreasing by 0.3 percent in sales & services from the same period of previous year. In addition, the increased cost of sales is due to the higher weight of the products sold, while the sales are affected by the declining sales price.

For nine months ended 31st Dec 2018, the Company and its subsidiaries had cost of goods sold of Baht 2,177.71 million, or stood at 86.76 percent of the total revenue in comparing with Baht 2,178.15 million, or stood at 85.24 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 periods of three months and nine months ended 31st Dec 2018, the Company and its subsidiaries had selling expenses of Baht 17.50 million and 50.33 million, compared with selling expenses of Baht 15.98 million and 47.65 million in the same periods of the previous year, or increased by 9.5 percent for three months period and increased by 5.6 percent for the nine months period respectively. Most of the higher expenses are staff expenses that are normally raised and the increased delivery costs due to increased sales weight.

For the period of three months and nine months ended 31st Dec 2018, the selling expenses were 2.21 percent and 2.02 percent of total sales and service respectively, compared with 2.01 percent and 1.88 percent in the 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 nine months ended 31st Dec 2018, the Company and its subsidiaries had administrative expenses of Baht 27.89 million and 83.72 million, compared with administrative expenses of Baht 25.39 million and 75.93 million in the same period of the previous year which increased by 9.8 percent and increase by 10.3 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 periods of three months and nine months ended 31st Dec 2018, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.65 million and 1.47 million in consolidated income statements or increased by 12.1 percent and 18.5 percent for periods of three months and nine months respectively in comparison with the same period of previous year.

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

For the periods of three months and nine months ended 31st Dec 2018, the Company and its subsidiaries had earning before interest and tax of Baht 60.96 million and Baht 198.28 million respectively. After deducting the financial costs of Baht -1.67 million and Baht -4.30 million, adding the share of income from investment of Baht 0.65 million and Baht 1.47 million, deducting the corporate income tax of Baht -11.67 million and Baht -38.51 million, the net profit of the Company and its subsidiaries were at Baht 48.27 million and Baht 156.94 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 decreased by -30.1 percent and by -30.4 percent respectively, whereas the earning before interest and tax and net profit for nine months were both decreased by -21.8 percent and -21.7 percent respectively.

In addition to the periods of three months and nine months ended 31st Dec 2018, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 16.07 million and 44.12 million respectively. The lower in 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 32.20 million and 112.82 million respectively.

1.8 Corporate income tax

For the periods of three months and nine months of year ended 31st Dec 2018, the Company and its subsidiaries recognized corporate tax expenses by Baht 11.67 million and 38.51 million, decrease from the same period of previous year of Baht 17.27 million and 49.88 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 16.07 million and 44.12 million for the periods of three months and nine months ended 31st Dec 2018.

1.10 Profitability

For the period of three months ended 31st Dec 2018, the Company and its subsidiaries had gross profit margin of 12.49 percent, compared with gross profit margin of 15.00 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 nine months ended 31st Dec 2018, the Company and its subsidiaries had gross profit margin of 12.53 percent compared with gross profit margin of 13.96 percent in the same period the previous year. The gross profit margin decreased by Baht -41.39 million.

(Unit: Baht million)

Consolidated balance sheets	As at 31 st Dec 2018		As at 31 st Mar 2018	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	306.05	12.98%	488.97	20.70%
Short-term investment	4.37	0.19%	4.85	0.21%
Account receivable, trade and others	696.74	29.54%	706.03	29.89%
Inventories	727.47	30.84%	663.32	28.08%
Other current assets	15.93	0.68%	3.24	0.14%
Total current assets	1,750.56	74.23%	1,866.41	79.02%
Non-current assets				
Restricted bank deposits	46.18	1.96%	46.18	1.96%
Investment in associate	9.00	0.38%	12.43	0.53%
Long-term investment	2.94	0.12%	2.76	0.12%
Property, plant and equipment	530.12	22.48%	412.07	17.45%
Intangible assets	0.42	0.02%	0.57	0.02%
Deferred tax assets	15.44	0.65%	17.90	0.76%
Other non-current assets	3.81	0.16%	3.71	0.16%
Total non-current assets	607.91	25.77%	495.62	20.98%
TOTAL ASSETS	2,358.47	100.00%	2,362.03	100.00%
LIABILITIES				
Current liabilities				
Short term loans from banks	140.72	5.97%	35.84	1.52%
Account payables, trade and others	533.72	22.63%	563.80	23.87%
Income tax payable	9.27	0.39%	30.95	1.31%
Other current liabilities	12.31	0.52%	10.33	0.43%
Total current liabilities	696.02	29.51%	640.92	27.13%
Non-current liabilities				
Provision for long-term employee benefits	39.65	1.68%	36.51	1.55%
Total non-current liabilities	39.65	1.68%	36.51	1.55%
TOTAL LIABILITIES	735.67	31.19%	677.43	28.68%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	16.24%	383.00	16.22%
Premium on stock	519.67	22.03%	519.67	22.00%
Retained earnings				
Legal reserve	74.70	3.17%	74.10	3.14%
Un-appropriated	437.40	18.55%	493.53	20.89%
Non-controlling interest of the subsidiary	208.03	8.82%	214.30	9.07%
Total shareholders' equity	1,622.80	68.81%	1,684.60	71.32%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,358.47	100.00%	2,362.03	100.00%

2. Financial Status

2.1 Assets

As for the assets value as at 31st December and 31st March 2018, the Company and its subsidiaries had total assets of Baht 2,358.47 million and Baht 2,362.03 million respectively. Cash and trade accounts receivable decreasing by -182.92 baht and -9.29 baht respectively. Inventories increased by 64.15 million baht and fixed assets increased by 118.05 million baht mainly due to the purchase of new land with new building. 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 31st December and 31st March 2018 the Company and its subsidiaries had net inventories of Baht 727.47 million (or 30.84 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 31st December and 31st March 2018, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 696.74 million (or 29.50 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 31st December and 31st March 2018, the Company and its subsidiaries had Land, plant and equipments – net of Baht 530.12 million (or 22.48 percent of total assets) and Baht 412.07 million (or 17.45 percent of total assets) respectively. During the year, 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 31st December and 31st March 2018, the Company and its subsidiaries had net value of Baht 46.18 million (or 1.96 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 31st December and 31st March 2018, the Company and its subsidiaries had net value of Baht 15.44 million and Baht 17.90 million respectively (0.65 percent and 0.76 percent of total assets respectively).

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as at 31st December and 31st March 2018 stood at Baht 735.67 million and Baht 677.43 million respectively. The increase in liabilities was mainly in short term loans from financial institution to pay off the purchase of raw materials.

2.3 Shareholders' equity

As at 31st December and 31st March 2018, shareholders' equity was Baht 1,622.80 million and Baht 1,684.60 million or decrease by -61.80 million. The major changes were during the period were from the net profit amounting to Baht 156.94 million and dividend payment of Baht -218.92 million. Therefore, portions of company shareholding interest and non-controlling interest of subsidiary stood at Baht 1,414.78 million and Baht 208.03 million respectively.

Debt to Equity ratio as at 31st December and 31st March 2018 were 0.45 and 0.40 times respectively.

(Unit: Baht million)

Consolidated cash flows statement	As at 31st Dec 2018	As at 31st Dec 2017
Net cash from (used in) operating activities	84.00	283.00
Net cash used in investing activities	-152.90	-6.67
Net cash from (used in) financing activities	-114.04	-216.29
Effect of exchange rate to cash and cash equivalent	0.02	0.07
Net increase (decrease) in cash	-182.92	60.11

3. Cash flows

For the year ended 31st December 2018, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 84.00 million, consisting of baht 165.97 million positively from operating performance and net negative working capital of Baht -81.97 million. Most negative in working capital was from the payment of trade creditors and keeping more stocks.

Net cash flow from investing activities was -152.90 million baht, with a main investment in new land with building and equipment of -161.05 million baht. There were cash received from dividend and equipment disposal by 5.02 million and 2.30 million baht respectively.

The financing part was net Baht -114.04 million by drawing up short term loan 104.88 million to settle trade creditors and payment of dividend by Baht -218.92 million.

In total, net cash for the period was decreased by Baht -182.92 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)
Deputy Managing Director