

TSR.IR.024/2018

13 November 2018

Subject: Management Discussion & Analysis for Q3-Y2018 of Thiensurat Group (Revise)

To: President

The Stock Exchange of Thailand

For the third quarter in Y2018, the Group had a profit of Baht 21.92 Million compared to a profit of Baht 20.19 Million for the same quarter in Y2017, it was continuous improved so that the profit for the result of nine months in Y2018 was higher than the result of nine months in Y2017 by Baht 20.58 Million or increased by 38.7% because of the constructive plan to reduce the cost and selling & administrative expenses. As a result, the Group's Earning per Share (EPS) for nine months was Baht 0.133 compared to Baht 0.091 per Share for nine months in Y2017.

During the third quarter 2018, the major highlights were:-

- The Group increased telemarketing seats to serve the customers call by using the existing database of good credit customers to up-sell and cross-sell. As a result, sales of electric home appliances except air conditioner increased.
- After learning how to build sales of electrical appliances via telemarketing, the Group concreted the strategy of O-2-O (Online to Offline) to sell both electrical appliances and water filters via the digital Marketing, which includes Line, Facebook, Lazada, etc., with the strength of PONSaBUY Program, and comprehensively sale network in Thailand.
- The Group continues to invest in product research and development for improving the cleanliness of water, to convert purified water into Alkaline water (the Company has registered patents and petty patents with the Department of Intellectual Property, Ministry of Commerce, eligible for 4 to 5-year term protection) and contains minerals which are necessary for body.
- The Group continually improve product quality as well as design, and utilize technology for the convenient use by customers.
- The Group also launched the constructive plan to reduce the cost and selling & administrative expenses.
- The Group signed the cooperative agreement with new MLM Partner to launch new model of water purifier.

Performance Overview 3Q18

Analysis of operating results

Income Statement

Revenues

- **Revenues from sales of goods, hire purchase interest income including income from loan receivables of a subsidiary ("total revenues")** of the Group for 3Q18 amounting to Baht 403.70 million, an increase of Baht 8.12 million or 2.05 % compared to those of 3Q17. The revenues consisted of revenue from sales of goods amounting to Baht 348.59 million, an increase of Baht 4.41 million or 1.28%; hire purchase interest income including income from loan receivables amounting to Baht 54.97 million, an increase of Baht 3.67 million, or increased by 7.15%. The increases were due to higher sale of water purifiers in 3Q18 compared to 3Q17 that was reduced by the impact of more stringent measures of credit approval policy and shorten the term of hire purchase contracts for new one in view of the impact of high household debts from

slow recovery in domestic demand. An increase of hire purchase interest income was due to the accounting adjustment from human mistake.

- **Other income** of the Group for 3Q18 was Baht 8.03 million, a decrease of Baht 6.20 million from 3Q17 caused by lower sales of plastic scrap from the plan to refurbishing the returned water filters to sell and donate instead including with a reduction of bad debt recover from the operation process changed.

Expenses

- **Cost of sales** of the Group for 3Q18 was Baht 100.42 million, an increase of Baht 7.05 million or 7.55% compared to 3Q17, the proportion of cost of sales to total revenues increased from 24.87% in 3Q17 to 23.60% in 3Q18 caused by higher sales of electrical home appliances with lower product margin than water filters together with the impact of booking the cost of supplies to produce water filters in one-time expense.
- **Selling expenses** of the Group for 3Q18 were Baht 137.76 million, a decrease of Baht 11.54 million or 7.73%. The proportion of selling expenses to total revenues was 33.46% which decreased from 3Q17 (3Q17: 36.43%). The decreases were due to the improvement of sales level and sale benefit structure be well managed and more efficient.
- **Administrative expenses** of the Group for 3Q18 were Baht 97.44 million, a decrease of Baht 8.85 million or 8.33%. The proportion of administrative expenses to total revenues decreased from 25.94% of 3Q17 to 23.67% of 3Q18. The decreases were due to a significant decrease of collecting commission caused by lower amount of hire purchase receivables to collect and the changing of customers' payment from using credit team to collect to be direct payment by customers with lower cost as well as the Group's plan to reduce all the administrative expenses by reducing the redundant and unproductive administrative expenses and using the outsourcings to support the Group's operation instead of using the employees to do like transportation, customer services, print and delivery documents etc.
- **Doubtful accounts and bad debts** of the Group for 3Q18 were Baht 48.38 million that were increased by Baht 15.66 million or 47.84% compared with 3Q17. This increase could not be compared due to the adjustment of doubtful accounts and bad debts in 3Q17 to be reduced by Baht 18.81 million under the measurement to cope with bad debts - establishment of more prudent credit approval policy; shortening payment terms and increase stringency in credit approval processes to ensure quality of hire purchase receivables. The credit approval process was strictly monitored by the Company's Credit Department. In addition, according to the Company's policy, commissions will be recalled from sales staff on uncollectible hire purchase receivables. Such policy has been consistently reviewed on a regular basis.

Profits

Gross Profit (calculated by deducting cost of sales from total revenues from sales of goods and hire purchase interest income including income from loan receivables) of the Group for 3Q18 and 3Q17 were Baht 303.28 million and Baht 302.20 million, or 75.13% and 76.40%, respectively. A drop of Baht 1.08 million or 0.36% was due to an increase of cost of sales as the above mention.

Net profit of the Group for 3Q18 was Baht 21.92 million, increased of Baht 1.72 million or 8.54% (3Q17: net profit of Baht 20.19 million). The net profit ratio of 3Q18 increased from 4.93% of 3Q17 to 5.32% resulting from the above mentioned rationale.

Statement of Financial Position

Total assets

As at 30 September 2018, total assets of the Group were Baht 1,456.18 million, decreased by Baht 25.13 million, or 1.70% compared to 31 December 2017 caused by booking of land, building and equipment depreciation amounting Baht 32.15 million; whereas, accounts receivable from hire purchase slightly increased by Baht 5.79 million due to more stringency in credit approval process to improve debt quality in order to mitigate risk of bad debts, and more efficiency in debt collection.

From the comparison of hire purchase accounts receivable as of 30 September 2018 to those as of 31 December 2017, there were more overdue hire purchase accounts of both water purifiers and electrical home appliances. The overdue hire purchase accounts of water purifiers came from the imprudent salesforces that need to be improved by issuing the strict measurement for imprudent salesforce that have to take responsibilities with the loss by return the commission and send credit officers to collect and solve those overdue hire purchase accounts. For the overdue electrical home appliance accounts came from less responsibilities of customers to have direct payment on time. This need to send credit officers to collect the overdue accounts, but if not collect, take the products back.

Details of the accounts receivable are shown below:

Water Purifiers									
Accounts receivable from hire purchase (Receivables less deferred hire-purchase interest and deferred output tax)									
	Water Purifier								
Unit : '000 Baht	Balance of hire purchase				Allowance for doubtful account				
	30 Sep.'18		31 Dec.'17		30 Sep.'18		31 Dec.'17		
Current	417,512	73.30%	447,418	79.36%	10,498	2.51%	11,292	2.52%	
Overdue 1 installment	77,960	13.69%	49,242	8.73%	4,678	6.00%	2,955	6.00%	
Overdue 2 installments	23,243	4.08%	21,330	3.78%	6,973	30.00%	6,399	30.00%	
Overdue 3 installments	15,233	2.67%	15,414	2.73%	7,617	50.00%	7,707	50.00%	
Non-consecutive overdue exceeding 3 installments	9,482	1.66%	10,272	1.82%	4,741	50.00%	5,136	50.00%	
Consecutive overdue exceeding 3 installments	26,153	4.59%	20,119	3.57%	26,153	50%/100%	20,199	50%/100%	
Total balance	569,583	100.00%	563,795	100.00%	60,660	10.65%	53,688	9.52%	
Allowance for doubtful accounts/Total hire purchase receivables					10.65%		9.52%		
*Rate of allowance for doubtful accounts of 50 percent is for non-consecutive delinquency over 3 installments and 100 percent for consecutive delinquency over 3 installments.									



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Electrical appliances								
Accounts receivable from hire purchase (Receivables less deferred hire-purchase interest and deferred output tax)								
	Electrical appliances							
Unit : '000 Baht	Balance of hire purchase				Allowance for doubtful account			
	30 Sep.'18		31 Dec.'17		30 Sep.'18		31 Dec.'17	
Current	66,343	51.41%	73,744	62.29%	431	1.00%	447	1.00%
Overdue 1 installment	23,294	18.05%	13,142	11.10%	291	2.00%	169	2.00%
Overdue 2 installments	10,212	7.91%	8,469	7.15%	642	10.00%	562	10.00%
Overdue 3 installments	6,505	5.04%	6,056	5.11%	817	20.00%	801	20.00%
Overdue 4 installments	4,592	3.56%	5,512	4.66%	845	30.00%	1,114	30.00%
Overdue 5 installments	3,318	2.57%	4,332	3.66%	838	40.00%	1,168	40.00%
Overdue 5 installments	2,747	2.13%	3,452	2.92%	878	50.00%	1,178	50.00%
Non-consecutive overdue exceeding 6 installments	6,077	4.71%	1,653	1.40%	1,862	50.00%	572	50.00%
Non-consecutive overdue exceeding 6 installments	5,966	4.62%	2,037	1.72%	4,364	50%/100%	1,363	50%/100%
Total balance	129,054	100.00%	118,397	100.00%	10,968	8.50%	7,374	6.23%
Allowance for doubtful accounts/Total hire purchase receivables					8.50%		6.23%	
* Rate of allowance for doubtful accounts of 50 percent is for non-consecutive delinquency over 6 installments and 100 percent for consecutive delinquency over 6 installments.								
** Allowance for doubtful accounts for electric appliances receivables calculated based on receivables less deferred interest and output tax, and net from residual value of returned electric appliances which considered from usage time, condition and market price of second hand electric appliances.								
Subsequently, these returned units will be sold as second hand items.								

Total liabilities

As at 30 September 2018, total liabilities of the Group were Baht 334.87 million, decreased by Baht 25.08 million or 6.97% from 31 December 2017. Liabilities that posed a huge decrease were short-term and long-term borrowings from financial institutions, as well as liabilities under finance lease agreements. The improvement in debt collection, prudent credit approval for new hire purchase accounts and cash receipt from share capital issued of warrant exercise amounting to Baht 9.30 million in the second quarter of 2018, made the Company has more liquidity and be able to repay portion of the outstanding debts.

Total borrowings from financial institutions, promissory notes, of the Group as at 30 September 2018 were Baht 144.58 million, decreased by Baht 51.33 million or 33.71%. The short-term borrowings were leveraged for working capital. The Company have never defaulted on loans and have been able to make all repayment.

Shareholders' equity

Shareholders' equity of the Group as at 30 September 2018 was Baht 1,114.80 million (31 December 2017: Baht 1,114.30 million), increased by Baht 0.49 million or 0.04%.

Debt to equity ratio as at 30 September 2018 was 0.30 (31 December 2017: 0.32). Book value per share was Baht 2.14 (31 December 2017: Baht 2.16 per share) due to warrant exercise amounting to Baht 9.30 million in the second quarter of 2018

Yours Sincerely,
Thiensurat Public Company Limited

(Mr. Ekarat Changyoo)
Chief Executive Officer