

No. CAZ 017/2020

07 August 2020

 Subject: Management Discussion and Analysis for the 2<sup>nd</sup> Quarter ended 30 June 2020

Attention: The President, The Stock Exchange of Thailand

CAZ (Thailand) Public Company Limited (“the Company”) and its Subsidiary (“the Group”) would like to clarify the change in operating result for the 2<sup>nd</sup> Quarter ended 30 June 2020, which changed in revenue and net profit compared with same period of last year as follows:

**Statement of Comprehensive Income**

(Unit : Million Baht)

Details	3 Months				6 Months			
	30 Jun 2020	30 Jun 2019	Changed	%	30 Jun 2020	30 Jun 2019	Changed	%
Revenues from construction contracts	563.67	540.31	23.36	4.32	1,175.49	954.66	220.83	23.13
- EPC Service	6.81	169.66	(162.85)	(95.99)	31.94	210.88	(178.94)	(84.85)
- Structure Mechanic and Pinging (SMP and E&I Services)	228.47	162.77	65.70	40.36	519.87	315.33	204.54	64.87
- Civil & Building Service	212.36	114.95	97.41	84.74	414.43	215.72	198.71	92.11
- Fabrication and Other service	116.03	92.93	23.10	24.86	209.25	212.73	(3.48)	(1.64)
Cost of construction contracts	(521.09)	(492.00)	29.09	5.91	(1,082.60)	(860.25)	222.35	25.85
<b>Gross profit</b>	<b>42.58</b>	<b>48.31</b>	<b>(5.73)</b>	<b>(11.86)</b>	<b>92.89</b>	<b>94.41</b>	<b>(1.52)</b>	<b>(1.61)</b>
Other income	0.73	0.15	0.58	386.67	1.19	2.84	(1.65)	(58.10)
Administrative expenses	(19.09)	(17.77)	1.32	7.43	(38.21)	(39.64)	(1.43)	(3.61)
<b>Profit before finance cost and income tax</b>	<b>24.22</b>	<b>30.69</b>	<b>(6.47)</b>	<b>(21.08)</b>	<b>55.87</b>	<b>57.61</b>	<b>(1.74)</b>	<b>(3.02)</b>
Finance cost	(6.78)	(3.72)	3.06	82.26	(13.07)	(6.48)	6.59	101.70
<b>Profit before income tax</b>	<b>17.44</b>	<b>26.97</b>	<b>(9.53)</b>	<b>(35.34)</b>	<b>42.80</b>	<b>51.13</b>	<b>(8.33)</b>	<b>(16.29)</b>
Income tax	(3.34)	(5.42)	(2.08)	(38.38)	(8.54)	(10.25)	(1.71)	(16.68)
<b>Profit for the year</b>	<b>14.10</b>	<b>21.55</b>	<b>(7.45)</b>	<b>(34.57)</b>	<b>34.26</b>	<b>40.88</b>	<b>(6.62)</b>	<b>(16.19)</b>
Owners of the parent	13.49	21.60	(8.11)	(37.55)	33.54	40.83	(7.29)	(17.85)
Non-controlling interests	0.61	(0.05)	0.66	(1,320.00)	0.72	0.05	0.67	1,340.00

## Business overview

As the coronavirus pandemic (COVID-19) has been spreads to global pandemic, including Thailand. The government has lunched many preventive measures to prevent the outbreak of COVID-19 such the state of emergency declared in all areas of the Kingdom of Thailand. And requested to consider activities involving gathering, which may promote person-to-person transmission of the virus. The Group has strictly adhered to government measures, especially social distancing and curfew during period of 3<sup>rd</sup> April until 14<sup>th</sup> June 2020. However, due to the government's prevent of COVID-19 spread measures, its affected to the Group operating results for the second quarter of 2020 both revenue and cost from construction contracts as follows.

### 1. Revenues from contraction contracts

The Group has revenue from construction contracts for the three-month period ended 30 June 2020 totaling of Baht 563.67 Million. Increasing of Baht 23.36 Million or 4.32%, compared with the same period of last year, which totaling of Baht 540.31 Million. Resulting from transferred right of control on the construction projects both revenue from constuction of EPC service and revenue from construction contracts which are defined output by using the percentage of completion method.

Moreover, due to the impact of COVID-19 pandemic leads the Group's revenue reducing from sales plan of Q2/2020. Main reasons were delay to start work of new projects and award schedule was delayed by pandemic issue such as Engineering work in their headquater have been delayed. Additional, main contractor's equipment and materials manufacture dalay delivery as well because it located in countries which still has serious of COVID-19 outbreak. Last, due to the government preventive policy, main contractors couldn't travel to Thailand. In summary, for the reasons that mentioned above cause revenue of the Group were reduced in Q2/2020.

As at 30 June 2020, the Group has backlog for construction services in oil, gas and petrochemical industrial totaling of Baht 2,231.29 Million. And also on 13 July 2020, the Group announcement of new projects awarded totaling of Baht 883.30 Million. (*Reference to notification of project awarded no. CAZ-016-2563, dated 13 July 2020*). Additional, at present bidding construction contracts from target customers are based on their requirements. Lead to the Group construction segment services income are varieties into each segment and not focusing on any particular service group.

## 2. Administrative expenses

On Q2/2020, the Group's administrative expenses totaling of Baht 19.09 Million, increased of Baht 1.32 Million, or 7.43% compared with Q2/2019 which was totaling of Baht 17.77 million. These increased resulted from employee's expenses & compensations to support the increased projects.

## 3. Finance costs

The Group has financial costs during on Q2/2020 increased totaling of Baht 3.06 Million, compared to same period of last year. Due to short-term loan from a financial institution which occurred on mid of 2019 for projects' working capital. Including, to increase the liquidity from the Group's operation impact of COVID-19.

## 4. Profitability

Gross profit and net profit Q2/2020 ended 30 Jun 2020 and 2019 as follows;

Profitability	Q2/2020		Q2/2019	
	(Million Baht)	%	(Million Baht)	%
Gross profit	42.58	7.55	48.31	8.94
Profit attributable to owners of the parent	13.49	2.39	21.60	4.00

On Q2/2020, the Group's gross profit of totaling of Baht 42.58 Million, which gross profit margin of 7.55%. Comparing with Q2/2019 totaling of Baht 48.31 Million or gross profit margin of 8.94%. The decreasing due to the impact of COVID-19 outbreak, such preventive measures of social distancing and curfew. It caused the Group had to improve budget costs control in some projects. Such as increased costs of labor, tool and consumable, including hygiene products used for preventing the spread of coronavirus.

Q2/2020, the Group's has net profit attributable to owners of the parent totaling of Baht 13.49 Million, or net profit margin 2.39%. Comparing with Q2/2019, which net profit attributable to owners of the parent totaling of Baht 21.60 Million, dropped amounted of Baht 8.11 Million. Or net profit margin 4.00%. The main reason is to the improving budget cost control which mention above. Additional, increasing of employee's expenses & compensations. And finance cost from short-term loan for projects' working capital due to the impact of COVID-19 which cause the Group's reducing work delivery in this period.

**Statement of Financial Position**

(Unit: Million Baht)

Details	30 Jun 2020	31 Dec 2019	Increased (Decreased)	%
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	8.54	31.33	(22.79)	(72.74)
Trade and other current receivables	224.54	186.08	38.46	20.67
Contract assets	518.21	564.88	(46.67)	(8.26)
Inventories	19.59	9.72	9.87	101.53
Other current assets	15.63	13.16	2.47	18.87
<b>Total current assets</b>	<b>786.51</b>	<b>805.17</b>	<b>(18.66)</b>	<b>(2.32)</b>
<b>Non-current assets</b>				
Restricted deposit at financial institution	18.00	32.95	(14.95)	(45.37)
Property, plant and equipment	563.12	527.97	35.15	6.66
Intangible assets	12.11	11.28	0.83	7.36
Retention receivables	31.48	10.56	20.92	198.11
Withholding tax deducted at source	118.55	96.48	22.07	22.88
Deposits	2.61	2.11	0.50	23.70
Deferred tax assets	1.23	1.08	0.15	13.89
<b>Total non-current assets</b>	<b>747.10</b>	<b>682.43</b>	<b>64.67</b>	<b>9.48</b>
<b>Total assets</b>	<b>1,533.61</b>	<b>1,487.60</b>	<b>46.01</b>	<b>3.09</b>
<b>Liabilities and equity</b>				
<b>Current liabilities</b>				
Bank overdraft	0.13	16.70	(16.57)	(99.22)
Short-term borrowing from financial institutions	152.19	222.25	(70.06)	(31.52)
Trade and other current payables	339.57	327.16	12.41	3.79
Contract liabilities	227.16	217.25	9.91	4.56
Short-term borrowing from related parties	90.00	2.50	87.50	3,500.00
Current portion of long-term borrowings from financial institutions	28.98	38.64	(9.66)	(25.00)
Current portion of Lease liabilities	16.29	8.34	7.95	95.32
Other current liabilities	37.03	21.38	15.65	73.20
<b>Total current liabilities</b>	<b>891.35</b>	<b>854.22</b>	<b>37.13</b>	<b>4.35</b>
<b>Non-current liabilities</b>				
Long-term borrowing from financial institutions	104.34	105.06	(0.72)	(0.69)
Lease liabilities	26.74	20.69	6.05	29.24
Retention payables	6.58	8.30	(1.72)	(20.72)



Details	30 Jun 2020	31 Dec 2019	Increased (Decreased)	%
Non-current provisions for employee benefits	6.05	5.06	0.99	19.57
<b>Total non-current liabilities</b>	<b>143.71</b>	<b>139.11</b>	<b>4.60</b>	<b>3.31</b>
<b>Total liabilities</b>	<b>1,035.06</b>	<b>993.33</b>	<b>41.74</b>	<b>4.20</b>
<b>Equity</b>				
Share Capital – Authorized	140.00	140.00	-	-
Issued and paid-up	140.00	140.00	-	-
Share premium	246.11	246.11	-	-
Retained earning				
Appropriated - legal reserve	9.15	9.15	-	-
Unappropriated	90.86	87.31	3.55	4.07
Equity attributable to owners of the parent	8.45	8.45	-	-
<b>Equity attributable to owners of the parent</b>	<b>494.57</b>	<b>491.02</b>	<b>3.55</b>	<b>0.72</b>
Non-controlling interests	3.98	3.25	0.72	22.13
<b>Total equity</b>	<b>498.55</b>	<b>494.27</b>	<b>4.28</b>	<b>0.86</b>
<b>Total liabilities and equity</b>	<b>1,533.61</b>	<b>1,487.60</b>	<b>46.01</b>	<b>3.09</b>

## Assets

As at 30 June 2020, the Group's total assets of Baht 1,533.61 Million, increased of Baht 46.01 Million, or 3.09% compared with last year as at 31 December 2019, which total assets of Baht 1,487.60 Million. The changing of total assets as follows;

### Current assets; comprising of

- Account receivable and other current receivables totaling of Baht 224.54 Million. Increased from last year of Baht 38.46 Million. Due to increasing of transfer right of controlling asset and billing invoice to customers for construction contracts on hand. The Group's has duration credit term payment period with customer around 30 days to 45 days.
- Contract assets (Unbilled receivables) totaling of Baht 518.21 Million. Reduced of Baht 46.67 Million, compared with last year. As a result of some construction projects are in almost late process of work, which the Group has gradually delivered right of controlling asset and issuing invoices to customers during the period.
- Inventories totaling of Baht 19.59 Million, increased from the previous year of Baht 9.87 Million by purchasing material for projects on hand.

Non-current assets: comprising of

- Net total of Property, plant and equipment, including intangible assets totaling of Baht 575.23 Million, increased of Baht 35.98 Million. Due to improving of the new land and property at Pluangdang district, Rayong province. Moreover, the Group invested into construction tool and equipment in order to improving capabilities and support new projects.
- Retention receivables totaling of Baht 31.48 Million, increased of Baht 20.91 Million from last year. Resulted from projects retention deduction when the Group delivered work in each progress during period. The rate of retention is accordance with construction service agreement with customers.
- Withholding tax deducted at source increasing of Baht 22.07 Million. Due to, customers' payment for construction service during the period.
- Restricted deposit at financial institution totaling of Baht 18 Million, decreased of Baht 14.95 Million, compared with 31 Dec 2019. Resulted from, end of guarantee period which issued the letter of guarantee to customers and promissory notes issued to financial institutions.

**Liabilities**

As at 30 June 2020, the Group's liabilities total of Baht 1,035.06 Million, increased of Baht 41.74 Million, or 4.20% compared 2019. Changing of total liabilities consist of:

- The Group has short-term loan from banks to be used as working capital during the period. Such as bank overdrafts, factoring, and promissory note from financial institutions in accordance with the credit facilities that the Group has. The total of short-term loan decreased by Baht 84 Million, compared with last year, because of repayment loan according to the contract schedule during 2020.
- Trade and other payables totaling of Baht 339.57 Million, increased of Baht 12.41 Million. Resulted from, the purchase of products and construction materials and outsourcing subcontractors during period.



- Contract liabilities total of Baht 227.16 Million, comprising as follows;
  - 1) Construction income received in advance (the value of total billed by contract's milestone payment condition which was higher than revenue recognition of this period) total of Baht 51.30 Million. These amount would be recognized revenue in the future when the Group transfer control on goods and services to customer by contract's condition.
  - 2) Advance received from construction contracts total of Baht 175.86 Million which were advanced received from customers. And these amount going to reduce by portion of next milestone's payment follow by contract.

However, contract liabilities that mention above increased of Baht 9.91 Million, or 4.56% compared with last year. These changing resulted from construction income received in advance increasing during the period.

- Long-term loan from banks totaling of Baht 133.32 Million, decreased of Baht 10.38 Million, compared with 31 December 2019, or decreased of 7.22%. Due to the repayment according to the contract schedule. In addition, in April 2020, the Group amended its credit facility agreement with a financial institution by having the grace period of principal loan repayment for 6 months from April to September 2020. The final repayment date of long-term borrowings from financial institutions will be due within February 2024 which is replaced the formal one in September 2023.

## Equity

Shareholders' equity to the parent Company as of 30 June 2020, totaling of Baht 494.57 Million, increased from previous year totaling of Baht 3.55 Million, or 0.72%. Changing of equities of the Group as following;

- Operating results with net profit attributable to owners of the parent for the six-month period ended 30 June 2020 total amount of Baht 33.54 Million.
- Interim dividend payment for the year 2019's operating results to shareholders whose names appear in the shareholder register on 16 March 2020 total of 280 Million shares, at 0.11 Baht per share. The total payment amounted of Baht 30 Million on 5 May 2020.

#### Key financial ratios

As at 30 June 2020, comparing with last year, the Group has significant financial ratios as following;

- Debt to Equity ratio (D/E) as of 30 June 2020 was 2.10 times. A little bit increased compare with end of last year which D/E ratio was at 2.02 times.
- Interest bearing debt as of 30 June 2020 was 0.85 times. Similar with 31 December 2019 which has interest bearing debt was 0.84 times.

Please be informed accordingly.

Sincerely yours,

(Mr. Chung Sik Hong)

Chief Executive Officer