

No. CAZ 004/2020

28 February 2020

Subject: Management Discussion and Analysis for the year ended 31 December 2019

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 year ended 31 December 2019, which changed in revenue and net profit compared with the last year as follows:

Statement of Comprehensive Income

(Unit : Million Baht)

Details	31 Dec 2019	31 Dec 2018	Increased (Decreased)	(%)
Revenues from construction contracts	2,034.46	1,387.08	647.37	46.67
- EPC Service	434.44	563.97	(129.53)	(22.97)
- Structure Mechanic and Pinging (SMP and E&I Services)	778.26	343.49	434.77	126.57
- Civil & Building Service	540.30	341.86	198.44	58.05
- Fabrication and Other service	281.46	137.77	143.69	104.30
Cost of construction contracts	(1,851.87)	(1,241.09)	610.78	49.21
Gross profit	182.59	145.99	36.59	25.06
Other income	6.19	2.79	3.40	122.04
Administrative expenses	(78.03)	(66.10)	11.93	18.04
Profit before finance cost and income tax	110.75	82.68	28.07	33.95
Finance cost	(15.31)	(12.90)	2.42	18.73
Profit before income tax	95.44	69.78	25.65	36.76
Income tax	(20.44)	(14.10)	6.35	45.01
Profit for the year	75.00	55.69	19.31	34.67
Owners of the parent	75.46	52.98	22.48	42.43
Non-controlling interests	(0.46)	2.71	(3.17)	(116.95)

1. Revenues from contraction contracts

In 2019, the Group has revenue from construction contracts for the year ended 31 December 2019 totaling of Baht 2,034.46 Million. Total Increased of Baht 643.37 Million or 46.67% compared with the same period of last year, which was Baht 1,387.08 Million. Resulting from transferred right of control on the construction projects on hand (Backlog) which were hired since 2017. Including, construction projects which signed during 2019. As at 31 December 2019, the Group has backlog for construction services total of Baht 2,287.39 Million.

Regarding, the new Thai Financial Reporting Standards (TFRS) no. 15 (TFRS 15), "Revenue from contracts with customers", the Group has applied the first time on 1 January 2019 (initial application date). Revenue recognition of the Group can divided as follows;

- Revenue from construction contracts which are defined output is promised, is recognised using the percentage of completion method. The stage of completion is generally determined as the percentage of cost incurred up until the reporting date relative to total estimated cost.
- Revenue from construction of EPC service. Under the contracts, the Group's construction activities creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, and hence revenue is recognised over time by reference to the progress towards completing the construction works. Under this method, the revenue recognised is based on the latest estimate of the total value of the contract and actual completion rate determined by reference to the physical state of progress of the works which certified by customers.

Since 2018 up to present, the Group has construction projects which hired by main contractors rather than owner projects. Due to the construction projects in the Petrochemical and Energy Group are large projects and project valuation have exceeding than Baht 10,000 Million. As a result, the construction segment services income of the Group are varieties into each service segment. Due to customer's requirement which are not focusing on any particular service group.

2. Other revenue

The Group's other revenue of 2019 totaling of Baht 6.19 Million. Increased of Baht 3.40 Million, from same period of last year. Due to the Group has profit from selling scrap and unused construction machine, equipment, and consumable during the year.

Moreover, during 2019, the Company received dividend from its subsidiary company which recognized in other revenue of the separate financial statements totaling of Baht 4.39 Million.

3. Administrative expenses

On 2019, the Group's administrative expense totaling of Baht 78.03 Million, increased of Baht 11.93 Million, or 18.04% compared with previous year. By 2018, administrative expense totaling of Baht 66.10 Million. Due to the increasing of employee's expenses & compensations, audit fee, consulting fee and advertising expenses. Including, public relationship expense for IPO's activities on January 2019.

4. Profitability

Gross profit and net profit the year ended 31 December 2019 and 2018 as follows;

Profitability	2019		2018	
	(Million Baht)	%	(Million Baht)	%
Gross profit	182.59	8.97	145.99	10.53
Profit attributable to owners of the parent	75.46	3.70	52.98	3.81

On 2019, the Group's gross profit of totaling of Baht 182.59 Million, increased of Baht 36.59 Million, with gross profit margin of 8.97%. Compared with 2018, gross profit of Baht 145.99 Million or gross profit margin of 10.53%. The Group's gross profit margin of 2019 was a few dropped from previous year. The main reason is improvement of construction budget cost control for projects in order to update all costs to be as close to current costs as possible.

The Group's has net profit attributable to owners of the parent totaling of Baht 75.46 Million on 2019. Increased of Baht 22.48 Million, or increased 42.43%, compared with 2018, which net profit attributable to owners of the parent totaling of Baht 52.98 Million. The increasing of the Group's net profit resulted from the continuing revenue growth, including efficiency of administrative expenses controlling. However, gross profit margin of 2019 was 3.70% which similar with last year gross profit of 3.81%.

Statement of Financial Position

(Unit: Million Baht)

Details	31 Dec 2019	31 Dec 2018	Increased (Decreased)	%
Assets				
Current assets				
Cash and cash equivalents	31.33	35.22	(3.89)	(11.04)
Trade and other receivables	186.08	208.40	(22.32)	(10.71)
Unbilled receivables	564.88	273.72	291.16	106.37
Inventories	9.72	135.92	(126.20)	(92.85)
Withholding tax deducted at source	27.44	-	27.44	n/a
Other current assets	13.15	6.85	6.30	91.93
Total current assets	832.60	660.11	172.49	26.13
Non-current assets				
Restricted bank deposits	32.95	20.79	12.16	58.48
Property, plant and equipment	527.97	357.14	170.83	47.83
Intangible assets	11.28	11.65	(0.37)	(3.13)
Retention receivables	10.57	37.25	(26.68)	(71.63)
Withholding tax deducted at source	69.04	61.31	7.74	12.62
Deposits	2.11	0.85	1.26	147.61
Deferred tax assets	1.08	0.66	0.42	62.44
Total non-current assets	655.00	489.65	165.35	33.77
Total assets	1,487.60	1,149.76	337.85	29.38
Liabilities and equity				
Current liabilities				
Bank overdraft	16.70	-	16.70	n/a
Short-term borrowing from banks	222.25	59.18	163.07	275.55
Trade and other payables	327.16	286.57	40.58	14.16
Service income received in advance	217.25	422.43	(205.18)	(48.57)
Current portion of long-term borrowings from banks	38.64	38.64	-	-
Current portion of liabilities under finance lease agreements	8.34	1.45	6.90	476.79
Short-term borrowing from third party	2.50	-	2.50	n/a
Other current liabilities	21.38	22.16	(0.78)	(3.51)
Total current liabilities	854.22	830.43	23.79	2.86

Details	31 Dec 2019	31 Dec 2018	Increased (Decreased)	%
Non-current liabilities				
Long-term borrowing form banks	105.06	143.70	(38.64)	(26.89)
Finance lease liabilities	20.69	3.00	17.69	590.67
Retention payables	8.30	7.96	0.34	4.26
Employee benefit obligations	5.06	3.07	1.99	64.93
Total non-current liabilities	139.11	157.73	(18.62)	(11.80)
Total liabilities	993.33	988.16	5.17	0.52
Equity				
Share Capital - Authorized	140.00	140.00	-	-
Issued and paid-up	140.00	100.00	40.00	40.00
Share premium	246.11	-	246.11	n/a
Retained earning				
Appropriated - legal reserve	9.15	5.09	4.06	79.92
Unappropriated	87.31	44.31	43.00	97.04
Equity attributable to owners of the parent	8.45	8.45	-	-
Equity attributable to owners of the parent	491.02	157.85	333.17	221.07
Non-controlling interests	3.25	3.75	(0.50)	(13.24)
Total equity	494.27	161.60	332.67	205.86
Total liabilities and equity	1,487.60	1,149.76	337.85	29.38

Assets

As at 31 December 2019, the Group's total assets of Baht 1,487.60 Million, increased of Baht 337.85 Million, or 29.38% compared with previous year, which total assets of Baht 1,149.76 Million. The changing of total assets as follows;

Current assets; comprising of

- Unbilled receivables totaling of Baht 564.88 Million. Increased of Baht 291.16 Million from last year. The main reason is revenue recognized were greater than milestone payment of the Group's customers.
- Inventories of Baht 9.72 Million, decreased from the previous year of Baht 126.20 Million for use during the period of projects on hand.

- Increasing of withholding tax deducted at source from previous year totaling of Baht 27.44 Million. This is refundable withholding tax of 2017 with on currently process of refund.

Non-current assets: comprising of

- Net total of Property, plant and equipment, including intangible assets totaling of Baht 527.97 Million, increased of Baht 170.83 Million. Due to invested in the new land and property which followed by the resolution of the Extraordinary General Meeting of Shareholders meeting No. 1/2019, on 1 July 2019, to change objectives of raised fund using from increase capital by the offering new ordinary share of the company. Moreover, the Group invested into construction tool and equipment in order to improving capabilities and support new projects.
- Retention receivables decreased of Baht 26.68 Million from the previous year due to the gradual delivery of the completed project work to customers during the period and partial refund.

Liabilities

As at 31 December 2019, the Group's liabilities total of Baht 993.33 Million, decreased of Baht 5.17 Million, or 0.52% compared 2018. Changing of total liabilities consist of:

- The Group has short-term loan to be used as working capital during the period increased by Baht 179.78 Million.
- Trade and other payables total of Baht 327.16 Million, increased of Baht 40.58 Million. Resulted from, the purchase of products and construction materials and outsourcing subcontractors during period.
- Advance received from construction contracts and construction income received in advance total of Baht 217.25 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 1.92 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 215.33 Million which were advanced received from customers. And these amount going to reduce by portion of next milestone's payment follow by contract.

However, Service income received in advance and Advance received from construction contracts were reduced by Baht 205.18 Million, or 48.57%, compared with last year. Due to revenue recognize during this period.

- Long-term loans from banks decreased from the end of previous year total of Baht 38.64 Million, or 26.89%, due to the repayment in accordance with the contract and the duration
- Liabilities under finance lease agreements totaling of Baht 29.03 Million, or increased of Baht 24.59 Million from previous year. Resulted from hire purchase contracts of motor vehicles, machinery tools and construction equipment during the period.

Equity

For shareholders' equity to the parent Company as of 31 December 2019, total of Baht 491.02 Million, increased from previous year, totaling of Baht 333.17 Million, or 221.07%. Resulted as reasons following;

- The Group offered its ordinary shares to the initial public offering (IPO) on 8-15 January 2019. And the shares of the Company began trading in the Stock Exchange of Thailand (mai) on 22 January 2019.
- Dividend payment of 2018 (April – December) to shareholders whose names appear in the shareholder register as of March 13, 2019 for 280 Million shares at 0.10 Baht per share. Totaling of Baht 28.00 Million on May 17, 2019.
- The Group's operating results with net profit attributable to owners of the parent for the period totaling of Baht 74.87 Million.

Key financial ratios

- Debt to Equity ratio (D/E) as of 31 December 2019 was 2.02 times. Decreased from last year, which has D/E 6.26 times. Due to the increasing capital of the initial public offering (IPO), including cash received after deducted directly attributable expenses of IPO on January 2019.



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- The Group's Interest bearing debt as of 31 December 2019 was 0.84 times, decreased from last year of 1.56 times. Due to the increasing of equity by IPO which mention above.

Please be informed accordingly.

Sincerely yours,

(Mr. Chung Sik Hong)

Chief Executive Officer