

19 March 2021

Subject: Management Discussion and Analysis and Financial Performance for the year ended 31 December 2020.

To: President
The Stock Exchange of Thailand

President Automobile Industries Public Company Limited (the "Company") provides Management Discussion and Analysis for the year ended 31 December 2020 as follows.

	Financial Statement for Year Ended 31 December 2020					
	2019		2020 ¹⁾		Change	
	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent
Revenues						
Revenue from sales	678.33	97.74	666.93	97.73	(11.40)	(1.68)
Revenue from others	15.67	2.26	15.49	2.27	(0.18)	(1.17)
Total Revenue	694.00	100.00	682.42	100.00	(11.58)	(1.67)
Costs & Expenses						
Cost of sales	571.90	82.41	503.80	73.83	(68.1)	(11.91)
Selling and distributing expenses	30.65	4.42	25.92	3.80	(4.73)	(15.44)
Administrative expenses	39.92	5.75	44.89	6.58	4.97	12.45
Loss from exchange rate	2.58	0.37	0.30	0.04	(2.28)	(88.23)
Total Costs & Expenses	645.05	92.95	574.92	84.25	(70.13)	(10.87)
Profit before financial costs and income tax expenses	48.95	7.05	107.50	15.75	58.55	119.59
Financial costs	(12.94)	(1.86)	(12.90)	(1.89)	0.04	(0.38)
Profit before tax expenses	36.01	5.19	94.60	13.86	58.59	162.71
Income tax expenses	(5.34)	(0.77)	(17.74)	(2.60)	(12.4)	231.99
Net Profit	30.67	4.42	76.86	11.26	46.19	150.63

Note: ¹⁾ No consolidated statement required for period ending 31 December 2019 due the suspended operations of the subsidiary company during 2018.

Revenue from Sales

Majority of the Company's revenue comes from the sales of its core products- condensers and evaporators. The sales of condensers and evaporators recorded revenues of 616.04 million Baht (88.76 percent of total revenue) in 2019 and 603.93 million Baht (88.50 percent of total revenue) in 2020. On the other hand, sales of other products such as compressors, R134a refrigerant and intercooler, realized revenues of 62.29 million Baht (8.98 percent of total revenue) in 2019 and 63 million Baht (9.23 percent of total revenue) in 2020.

Due to the outbreak of COVID-19 in early 2020, the world economy experienced a drastic slowdown which caused worldwide consumption to decline significantly. Thus, overall revenue of condensers dropped from 489.34 million Baht in 2019 to 446.64 million Baht in 2020, which is a decrease of 42.70 million Baht (8.73% decrease). The domestic sales of condensers decreased from 175.23 million Baht in 2019 to 158.80 million Baht in 2020 (16.43 million Baht; 9.38% decrease) as an effect of lower overall consumption in Thailand during the period.

Additionally, one of impacts from COVID-19 outbreak which affected the Company was the worldwide container shortages. This was evident in Quarter 4/2020 when the Company were not able to export as much as before, causing the revenue from exporting decreased from 314.11 million Baht in 2019 to 287.84 million Baht in 2020 (26.27 million Baht decrease; 8.36% decrease).

As for sales of evaporator for 2019 and 2020 was 126.70 million Baht and 157.29 million Baht respectively, which is an increase of 30.59 million Baht (24.15% increase). This boost in sales comes from a business partnership to launch the new evaporator technology – the Laminate Superslim Evaporator in the domestic market. Thus, the revenue of the evaporator in Thailand market increased from 59.30 million Baht in 2019 to 95.78 million Baht in 2020 (increase by 36.48 million Baht; 61.51%).

Revenue from Others

Revenue from others includes revenue from scraps and interest gains from exchange rate. The revenue from others were 15.67 million Baht in 2019 and 15.49 million Baht in 2020, which decreased by 0.18 million Baht (1.17% decrease).

Costs of Sales

The costs of sales consists of (1) direct material cost (e.g. aluminum tube and foil) (2) labor cost (3) manufacturing overhead cost (e.g. machine depreciation and maintenance costs) (4) other costs of sales (e.g. obsolete product allowance, and Net Realizable Value (NRV) of finished goods).

The costs of sales in 2019 and 2020 were 571.90 million Baht and 503.80 million Baht respectively, which is a decrease of 68.10 million Baht (11.91% decrease). By 2020, the Company was able to fully utilize its automation in the production process, thus, reducing its labor costs significantly.

Gross Profit

For the year ended 31 December 2019 and 2020, the gross profit were 106.44 million Baht and 163.13 million Baht respectively. The gross profit increased by 56.69 million Baht (53.26% increase) in 2020. The Company realized a slight decrease in revenue of 11.40 million Baht (or 1.68%) from 678.33 million Baht in 2019 to 666.93 million Baht in 2020. The cost of goods sold per sales revenue decreased from 84.31% in 2019 to 75.54% in 2020, largely due to the decrease in labor costs from use of automation and increased efficiency in the manufacturing process.

Selling Expenses

Selling and distributing expenses in 2019 and 2020 were 30.65 million Baht and 25.92 million Baht respectively. There was a decrease in the selling expenses of 4.73 million Baht, or 15.44%. The decreased in the selling expenses was the cancelled or postponed marketing activities due to the COVID-19 outbreak.

Since the Company has adopted the new accounting standard, Thai Financial Reporting Standard No. 16 (TFRS 16), starting from 1 January 2020, which required the lease expense of the distribution center to be

recorded as depreciation of asset rights and financial cost instead. Currently, the Company holds a long-term lease for the distribution center in Bang Bon area (also known as PACO 4). In 2019, the total lease expense accounts recorded as 4.35 million Baht and in 2020, the depreciation cost was recorded as 4.27 million Baht.

Administrative Expenses

The administrative expenses of the Company in 2019 and 2020 were 39.92 million Baht and 44.89 million Baht respectively. The administrative expense increased by 4.97 million Baht (12.45% increase) due to the ending 2019 to beginning of 2020, where the Company hired 4 additional executives, which accounted for increased salary expenses.

Another major reason for the increased in the administrative expense was due to the loss from impairment of machines recorded in Q3/2020. In 2017, the Company acquired 2 machines for production – Pipe Assembly Machine (“Machine 1”) and Pipe Assembly Machine for D shape (“Machine 2”). Machine 1 was installed and full payment made, however, Machine 1 was operable as stated in the contract. After the issue with Machine 1, the Company immediately suspended the installation of Machine 2 and remaining payments. On 21 November 2019, the Company filed lawsuits against the supplier regarding this dispute. However, the lawsuit was dismissed from the court in Q3/2020, and the Company was required to record a loss from impairment of Machine 1 and allowance of impairment of Machine 2 (for first payment) with total value of 2.99 million Baht.

Financial Costs

The Company's financial costs in 2019 and 2020 were 12.94 million Baht and 12.90 million Baht respectively. There was a slight decrease of 0.04 million Baht (0.38%) in the financial cost due to the interest rate cuts from the Bank of Thailand's policy to support the economy amidst the COVID-19 situation and the Company benefits from this as most of the loans are loans with floating interest rate.

Nevertheless, the Company's debt increased from 255.89 million Baht as at 31 December 2019 to 461.69 million Baht as at 31 December 2020, or an increase of 80.44%. This is from the long-term loan in Quarter 3/2020, under the amount of 120 million Baht, 199.85 million Baht of which was used for dividend pay-out and 0.92 million Baht used for working capital. This resulted in the total long-term debt of 200.77 million Baht ending 31 December 2020.

Net Profit

There was a significant increase in the net profit of 46.19 million Baht, or 150.63% from 2019 to 2020. The net profit in 2019 and 2020 were 30.67 million Baht and 76.86 million Baht respectively. This significant increase was due to the reduction in production costs from use of automation and increased efficiency in the manufacturing process.

Statement of financial position	As at 31 December					
	2019		2020		Change	
	Million Baht	%	Million Baht	%	Million Baht	%
Assets						
Current assets						
Cash and cash equivalents	14.44	1.51	101.38	9.88	86.94	601.91
Trade and other receivables	114.47	11.96	103.01	10.04	(11.46)	(10.00)
Inventories	358.98	37.51	340.64	33.21	(18.34)	(5.11)
Receivables from the Revenue Department	5.00	0.52	4.47	0.44	(0.53)	(10.65)
Other current assets	2.20	0.23	9.02	0.88	6.82	310.84
Total current assets	495.09	51.73	558.52	54.45	63.43	12.81
Non-current assets						
Restricted bank deposits	0.43	0.04	2.01	0.20	1.58	371.24
Property, plant and equipment	447.32	46.74	452.33	44.10	5.01	1.12
Intangible assets	6.76	0.71	5.69	0.55	(1.07)	(15.86)
Deferred tax assets	5.79	0.60	6.44	0.63	0.65	11.21
Advance payment for purchases of property, plant and equipment	0.94	0.10	-	-	(0.94)	(100.00)
Other non-current assets	0.80	0.08	0.72	0.07	(0.08)	(8.77)
Total non-current assets	462.04	48.27	467.19	45.55	5.15	1.12
Total assets	957.13	100.00	1,025.71	100.00	68.58	7.17
Liabilities and shareholders' equity						
Current liabilities						
Bank overdrafts and short-term loans from financial institutions	144.22	15.07	168.58	16.44	24.36	16.90
Trade and other payables	66.01	6.89	72.57	7.08	6.56	9.95
Current portion of lease liabilities	2.94	0.31	11.24	1.10	8.30	282.61
Current portion of long-term loans from financial institutions	53.69	5.61	88.12	8.59	34.43	64.12
Income tax payable	3.16	0.33	7.53	0.73	4.37	137.99
Other current liabilities	8.46	0.88	7.84	0.76	(0.62)	(7.43)
Total current liabilities	278.48	29.09	355.88	34.70	77.40	27.79
Non-current liabilities						
Lease liabilities, net of current portion	3.36	0.35	38.44	3.75	35.08	1044.71
Long-term loans from financial institutions, net of current portion	51.67	5.40	155.31	15.14	103.64	200.60
Provision for long-term employee benefits	6.60	0.69	7.21	0.70	0.61	9.16
Total non-current liabilities	61.63	6.44	200.96	19.59	139.33	226.08
Total liabilities	340.11	35.53	556.84	54.29	216.73	63.72
Shareholders' equity						
Share capital						
Registered	370.00	38.66	500.00	48.75	130.00	35.14
Issued and fully paid up	370.00	38.66	370.00	36.07	-	-
Retained earnings						
Appropriated - statutory reserve	10.70	1.12	26.80	2.61	16.10	150.43
Unappropriated	236.32	24.69	72.07	7.03	(164.25)	(69.50)
Total shareholders' equity	617.02	64.47	468.87	45.71	(148.15)	(24.01)
Total liabilities and shareholders' equity	957.13	100.00	1,025.71	100.00	68.58	7.17

Assets

As at 31 December 2019 and 2020, the total asset were 957.13 million Baht and 1,025.71 million Baht respectively. The total asset increased by 68.58 million Baht, or 7.17%, due to the increased in cash and cash equivalents. The cash and cash equivalent in 2019 was 101.38 million Baht but the amount increased by 86.94 million Baht (601.91%) in 2020 from operating, investing and financing activities.

Liabilities

As at 31 December 2019 and 2020, the total liabilities were 340.11 million Baht and 556.84 million Baht respectively. The total liabilities increase of 216.73 million baht, or 63.72%, was due to the adoption of the new Thai Financial Reporting Standard No. 16 (TFRS 16) which required the lease expense of the distribution center to be recorded as depreciation of asset rights and financial cost. The total liabilities increased from 6.30 million Baht as at 31 December 2019 to 49.67 million Baht as at 31 December 2020. Additionally, the Company received a 120-million-Baht long-term loan from financial institutes in 2020, which resulted in a total of 200.77 million Baht long-term debt.

Equity

As at 31 December 2019 and 2020, the Company has a total equity of 617.02 million Baht and 468.87 million Baht respectively. There was a decrease of 148.15 million Baht (24.01%) due to the decreased in retained earnings in 2020 where the company has paid out the dividend for 2019 and 2020 with a total amount of 225 million Baht.

Financial Ratios

As at 31 December 2019 and 2020, the Company has liquidity ratios of 1.78 and 1.57 respectively and current ratios of 0.46 and 0.57 respectively. The reason for the difference between liquidity ratios and current ratios was due to the high inventory-to-current assets proportion, which was 72.51% and 60.99% for 2019 and 2020 respectively.

The Company has potential to continuously realize more profits, as evident in the operating profit margin of 16.12% in 2020 (increased from operating margin of 7.22% in 2019). Additionally, the return on equity increased from 5.12% in 2019 to 14.16% in 2020, and the return on assets increased from 3.07% in 2019 to 7.75% in 2020.

Even though the debt-to-equity ratio increased from 0.55 to 1.19 in 2020, but the increase was due to the new accounting standards adopted, the long-term debt to payout dividend as well as decrease in equity from dividend payout from the earnings in 2019 and 2020. Thus, the change in the debt-to-equity ratio does not have any significant impact on the operations.

Sincerely,

- Mr. Somchai Lertkajornkitti -

Mr. Somchai Lertkajornkitti

Chief Executive Officer