

PROEN Corp Public Company Limited

Management Discussion and Analysis for 2020

Business Overview

PROEN Corp Public Company Limited and its subsidiaries (“The Group Company”) operate in the following businesses: (1) Information Communication and Technology (ICT), information technology services of Internet Data Center (IDC), Internet Service Provider (ISP) and Cloud Service, which is the main revenue and accounted for 59.4 percent of total revenue in 2020. (2) Construction related to Telecommunication and Infrastructure Services, which the Group Company was firstly recognized in 2018. The construction revenue is accounted for 40.2 percent of total revenue in 2020. (3) Other income is accounted for 0.4 percent in 2020.

Summary of operating performance

During 2019 – 2020, revenue from sales and services of the Group Company increased by 6.5 percent compound annual growth rate (CAGR), mainly caused by the growth of Construction business which the Group Company had the additional 3 construction projects in electrical transmission line during 2020. Moreover, the Group Company had more efficiency in construction cost controlling due to our experience in this business increased and resulted in the higher gross profit margin in Construction business. While the revenue from ICT business decreased from 2019 since the Group Company did not have a huge ICT project like in 2019. However, the providing service and facilities of internet data center (IDC) together with Internet serve provider (ISP) and other ICT services such as Cloud Service, DDoS, Web Hosting and Brach Connect had increased because of a positive impact from COVID-19 pandemic. The Group Company's major customers are in online media, game online and e-commerce businesses. These businesses have highly expanded their operations during the COVID-19 pandemic. This was a result from the changes of consumer behavior and their routines in daily life that switched to more online activities such as shopping online for computer and electronic devices, office supplies, food and beverage, health products, online media, etc.

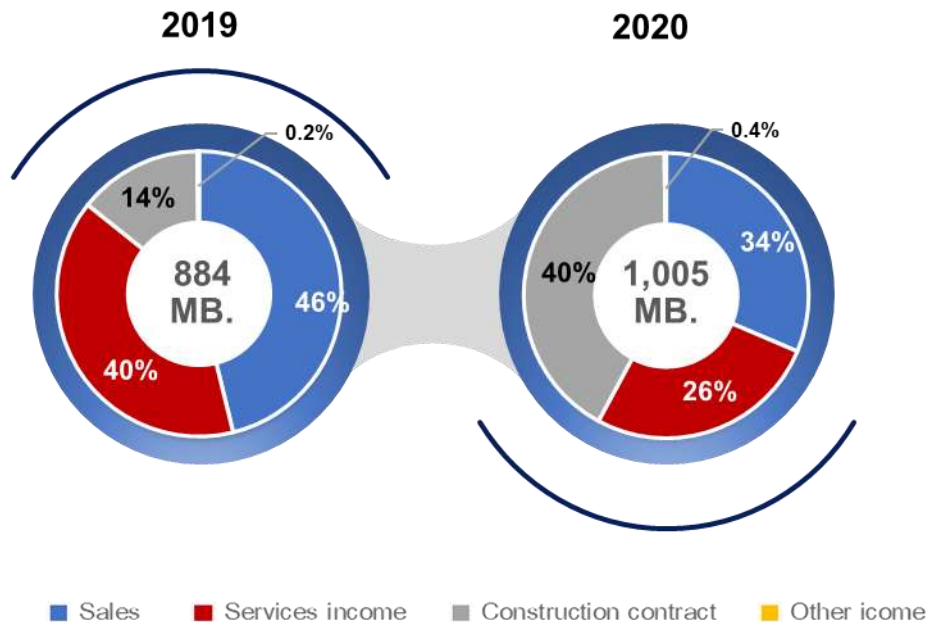
Other incomes increased due to the increase of interest earned. This was consistent with the increase of cash flow from the increase of bank deposit during the year, and the financial cost increased due to the increase of loan from financial institution in order to support the increased construction projects. The gross profit margin of the Group during 2019 – 2020 had been quite stable, equal to 15.7 percent by average while the net profit margin improves from 1.9 percent in 2019 to 2.5 percent because of the increased ability to control cost in the construction business.



Operating performance (Unit: Million Baht)	2019	2020	Increase (Decrease)	% Increase (Decrease)
Revenue from sales and services	882.6	1,001.1	118.5	13.4%
Total Cost of sales and services	746.4	841.0	94.7	12.7%
Gross Profit	136.3	160.1	23.8	17.5%
Other incomes	1.6	4.4	2.8	182.3%
Selling expenses	18.9	18.2	(0.7)	(3.5%)
Administrative expenses	81.9	94.2	12.3	15.0%
Profit before finance cost and corporate income tax	37.0	52.1	15.0	40.6%
Finance costs	11.4	16.8	5.4	47.5%
Profit before corporate income tax	25.6	35.2	9.6	37.6%
Corporate Income Tax	9.0	9.9	0.9	10.6%
Net Profit	16.6	25.3	8.7	52.2%

Revenue , Cost and Gross Profit

During 2019 – 2020, the main revenue of the Group came from ICT business; the ratio of revenue from ICT business and revenue from sale and service tended to decrease since the Group had expanded to conduct construction business where the revenue was initially recognized in 2018. The ratio of revenue increased considerably from 14.1 percent in 2019 to 40.2 percent in 2020, which could be explained as follows:



Revenue Structure	Type of Business	2019		2020		Increase (Decrease)	% Increase (Decrease)
		MB.	%	MB.	%		
Revenues from sales	ICT	408.4	46.2%	336.8	33.5%	(71.6)	(17.5%)
Revenues from services	ICT	350.0	39.6%	260.4	25.9%	(89.7)	(25.6%)
Revenues from construction contracts	CON.	124.2	14.1%	403.9	40.2%	279.7	225.1%
Revenue from sales and services		882.6	99.8%	1,001.1	99.6%	118.5	13.4%
Other incomes*	-	1.6	0.2%	4.4	0.4%	2.8	182.3%
Total Revenue		884.2	100.0%	1,005.5	100.0%	121.3	13.7%

* Other incomes comprise interest income from financial institutions and interest income from loan to related party.

1. ICT Business consists of : telecommunication network equipment distribution business and telecommunication network service business

1.1) Telecommunication network equipment distribution business

Description	For the year ended 31 December					
	2019		2020		Increase (Decrease)	%Increase (Decrease)
	MB.	%	MB.	%		
Revenue from sales of telecommunication network equipment	408.4	100.0%	336.8	100.0%	(71.6)	(17.5%)
Cost from sales of telecommunication network equipment	366.0	89.6%	315.7	93.7%	(50.3)	(13.7%)
Gross profit from sales of telecommunication network equipment	42.4	10.4%	21.1	6.3%	(21.3)	(50.2%)

Much of the revenue from selling telecommunication network equipment during 2019 – 2020 came from server and computer equipment sold to Garena Group which conducts business of online game and online store. In 2020, the Company's revenue decreased 71.6 million baht equal to 17.5 percent due to the decrease of revenue from the equipment deal and installation project with the government agencies, much of such revenue was already recognized in 2019.



The cost of product included the cost of purchasing network equipment like server and computer equipment from distributional agent of technological equipment in Thailand under the purchase order made by customers. In 2019, the gross profit margin was 10.4 percent which was higher than that of the previous year because the products involved in the equipment deal and installation project with the government agency were characterized by being specific, so the gross profit margin of the project was quite high. In 2020, there was no selling of specific products as in 2019, so the gross profit margin decreased.

1.2) Telecommunication network service business

Description	For the year ended 31 December					
	2019		2020		Increase	%Increase
	MB.	%	MB.	%	(Decrease)	(Decrease)
Revenue from service of telecommunication network						
1. Revenue from service of Internet Data Center (IDC)	124.2	35.5%	129.5	49.7%	5.3	4.3%
2. Revenue from service of Internet Service Provider (ISP)	61.6	17.6%	69.4	26.6%	7.8	12.7%
3. Revenue from project service	123.0	35.1%	44.1	16.9%	(78.9)	(64.2%)
4. Revenue from other service	41.3	11.8%	17.4	6.7%	(23.9)	(57.9%)
Total revenue from service of telecommunication network	350.0	100.0%	260.4	100.0%	(89.6)	(25.6%)
Cost from service of telecommunication network						
Variable costs : Internet and network service , and electricity of IDC	145.5	41.6%	111.5	42.8%	(34.0)	(23.4%)
Fixed costs : Rental , Depreciation , Employee expenses , Subcontract cost and other expenses	120.1	34.3%	65.2	25.0%	(54.9)	(45.7%)
Total cost from service of telecommunication network	265.6	75.9%	176.7	67.8%	(88.9)	(33.5%)
Gross profit from service of telecommunication network	84.4	24.1%	83.7	32.2%	(0.7)	(0.8%)



In 2019, the Group additionally operated in the large-scale equipment deal and installation project for the government agency besides the data and internet center service which was the main revenue obtained from telecommunication network service of the Group, resulted in the significant increase of total revenue from service provision in 2019. In 2020, the revenue from telecommunication network service provision decreased by 89.6 million baht since there had no large project as in 2019. The cost of telecommunication network service provision and other services consisted of:

- 1) **Variable cost** included network and internet service and electricity service provided to IDC. During 2019 – 2020, the Company had ratio of variable cost to total revenue from service by 41.6 percent and 42.8 percent, respectively. The ratio of variable cost to total revenue from service had been higher continuously due to the adjustment of internet service charge from the network owner. In addition, the CAT Telecom Public Company Limited or CAT, the electricity service provider in IDC, and the public utilities system service rate had been adjusted to be higher after the renewal of lease and service agreement in 2019. Also, in 2020, the Company rented the area used to provide service to IDC, leading to the increase of electricity and public utilities service cost.
- 2) **Fixed cost** included the labor cost of contractor, rental, depreciation and amortization, expenses related to the employees, other related expenses. In 2019, the Company had increased fixed cost mainly from the increase of the project service cost, making the ratio of fixed cost to the total revenue from service to be 34.3 percent due to the increase of labor cost of contractor which was the main cost of ICT, and the increase of rental of IDC paid by the Company to CAT under the plan for additional lease for the area expansion of IDC, and the adjustment of rental rate after the renewal of lease and service agreement in 2019. However, the fixed cost of the Company decreased in 2020 since there was no cost of contractor related to the work in installing equipment of the government agency as in 2019. Also, in 2020, the Company recorded the IDC rental as the right-of-use asset in the Statement of Financial Position under the announcement of TFRS 16 on Lease Agreement in place of the rental on part of the cost for ICT service in Comprehensive Income Statement.

The gross profit margin during 2019 – 2020 accounted for 24.1 percent and 32.2 percent, respectively. The main reason of the decrease of the gross profit margin in 2019 was that the quantity of project works increased, most of which had less gross profit margin than the data and internet service business. Moreover, the Group had adjusted the service rate of IDC in order to maintain customer base due to the increased competition.



2. Construction contract business

Description	For the year ended 31 December					
	2019		2020		Increase	%Increase
	MB.	%	MB.	%	(Decrease)	(Decrease)
Revenues from construction contracts	124.2	100.0%	403.9	100.0%	279.7	225.2%
Cost from construction contracts	114.8	92.4%	348.7	86.3%	233.9	203.7%
Gross profit from construction contracts	9.5	7.6%	55.2	13.7%	45.7	481.1%

In 2020, the Group had 9 construction projects, most of them were the power transmission line construction contract and sewer system improvement of Bangkok, with the revenue recognized from the construction agreement under the successful completion of work, referred to the actual cost.

The gross profit margin in 2020 increased from that of 2019 since the Group had gained more experience in the management of construction project thus being able to control cost related to the operation of work, resulted in the increase of gross profit margin. The Group had operated 3 additional power transmission line projects in 2020.

Other incomes

Other incomes during 2019 – 2020 were the interest earned from the financial institution and interest earned from the loan provided to the related parties. Mostly, other incomes in 2020 included the profit from selling assets, interest earned from the financial institution and interest earned under the hire-purchase agreement (Google Station Project Work). The interest earned from loan provided to the related parties had the amount until 31 July, 2019 which was the day when the Group repaid the money borrowed from the related businesses and there was no loan provided to the related parties from then onwards.



Selling expenses

Selling expenses Structure	For the year ended 31 December					
	2019		2020		Increase	%Increase
	MB.	%	MB.	%	(Decrease)	(Decrease)
Salaries, wages and other employee benefits	16.2	85.6%	14.8	81.2%	(1.4)	(8.6%)
Commission	0.6	3.2%	0.7	3.8%	0.1	16.7%
Advertising and marketing expense	1.6	8.4%	2.0	11.0%	0.4	25.0%
Other expenses ¹	0.5	2.8%	0.7	4.0%	0.2	40.0%
Total Selling expenses	18.9	100.0%	18.2	100.0%	(0.7)	(3.7%)

¹ Other expenses include travel, hospitality and transportation expenses

Selling expenses during 2019 – 2020 were mainly salary, labor cost, and expenses related to sale employees; the selling expenses of sale employees increased in 2019 caused by the increase of the number of employees to support the business expansion related to the telecommunication network and construction contract. The selling expenses in 2020 was slightly different from those in 2019 in that the selling expenses in 2020 decreased slightly due to the reduction of salary, labor cost, and expenses related to employees.

Administrative expenses

Administrative expenses Structure	For the year ended 31 December					
	2019		2020		Increase	%Increase
	MB.	%	MB.	%	(Decrease)	(Decrease)
Salaries, wages and other employee benefits	32.7	40.0%	35.0	37.1%	2.3	7.0%
Expected credit loss	14.3	17.5%	21.4	22.7%	7.1	49.7%
Consultancy fee and audit fee	12.6	15.4%	11.4	12.1%	(1.2)	(9.5%)
Depreciation and amortization	8.0	9.8%	8.6	9.1%	0.6	7.5%
Bank fees and other fees	8.1	9.9%	8.0	8.5%	(0.1)	(1.2%)
Rent, utilities And maintenance costs	2.2	2.6%	2.7	2.9%	0.5	22.7%
Insurance premium	1.9	2.3%	2.6	2.7%	0.7	36.8%
Other expenses ¹	2.1	2.6%	4.5	4.8%	2.4	114.3%
Total Administrative expenses	81.9	100.0%	94.2	100.0%	12.3	15.0%



¹ Other expenses Mainly composed of Printing stationery cost Consumption cost, tax, stamp duty Expenses that are not considered expenditures, travel expenses, hospitality and charitable donations, etc

In 2020, the administrative expenses increased by 12.3 million baht or increased from the previous year by 15.0 percent; the main reasons of such were 1) the increase of expenses related to employees in order to support the expansion of business related to information technology and construction contract in the amount of 2.3 million baht, and 2) the increase of set-up of allowance for doubtful accounts in 2020 for 7.1 million baht for the accounts receivable and construction receivable where the outstanding amount had not yet been collected for more than 90 days.

Finance costs

Financial cost in 2020 increased from that of 2019 by 5.4 million baht or increased from the previous year by 47.4 percent, mainly came from the construction business which wads new business where the Group had to borrow money from the financial institution in order to be used in the management of power transmission line construction project and sewer system improvement work of Bangkok.

Net profit and net profit margin

Net profit in 2020 increased from that of 2019 by 8.7 million baht, or increased from the previous year by 52.4 percent, from the operation in telecommunication network equipment business since the customers of Garena Group required much more equipment; also, the revenue from telecommunication network service business especially from IDC and ISP as well as the construction contract business was recognized, and the profit increased due to the improved experience in construction business of the Group leading to the improved ability to control cost of construction of the project.

Statement of Financial Position

Financial position (Unit: Million Baht)	31 Dec. 2019	31 Dec. 2020	Increase (Decrease)	%Increase (Decrease)
Total Assets	615.3	666.9	51.6	8.4%
Total Liabilities	505.2	516.4	11.2	2.2%
Total Equity	110.1	150.5	40.4	36.7%



Total Assets

Financial position (Unit: Million Baht)	31 Dec. 2019	31 Dec. 2020	Increase (Decrease)	%Increase (Decrease)
Cash and cash equivalents	45.3	85.4	40.1	88.5%
Restricted cash	110.0	70.8	(39.2)	(35.6%)
Trade and other receivables	320.4	297.8	(22.6)	(7.1%)
Inventories	21.3	20.4	(0.9)	(4.2%)
Property, plant and equipment and Right-of-use assets	74.2	148.0	73.8	99.5%
Other assets	44.1	44.5	0.4	0.9%
Total Assets	615.3	666.9	51.6	8.4%

Assets in 2020 increased mainly due to the increase of cash and cash equivalents because the repayment from accounts receivable, especially the large one like the Provincial Electricity Authority was made before the end of account period, resulted in the decrease of accounts receivable and other receivable in 2020, and the increase of land, building, and equipment due to the purchase of land to prepare for the IDC building construction and new office in 2020. As at 31 December, 2020, the Group had total assets in the amount of 666.9 million baht which was similar to that in 2019. As at 31 December, 2020, the key elements of total assets could be concluded as follows:

1. Cash and cash equivalents in the amount of 85.4 million baht or accounted for 12.8 percent of total assets
2. Bank deposit with collateral obligations in the amount of 70.8 million baht, or equal to 10.6 percent of total assets
3. Accounts receivable and other receivable in the amount of 297.8 million baht or accounted for 44.7 percent of total assets
4. Inventory in the amount of 20.4 million baht, equal to 3.1 percent of total assets
5. Land, building, and equipment and right-of-use assets in the amount of 148.0 million baht, or equal to 22.2 percent of total assets
6. Other assets in the amount of 44.5 million baht, or equal to 6.6 percent of total assets



Total Liabilities

Financial position (Unit: Million Baht)	31 Dec. 2019	31 Dec. 2020	Increase (Decrease)	%Increase (Decrease)
Trade and other payables	234.9	269.0	34.1	14.5%
Borrowings from financial institutions	192.7	168.1	(24.6)	(12.8%)
Lease liabilities	50.8	47.7	(3.1)	(6.1%)
Other liabilities	26.8	31.6	4.8	17.9%
Total Liabilities	505.2	516.4	11.2	2.2%

The debt in 2020 increased continuously mainly due to the increase of accounts payable and other payable from the expansion of construction business and the reduction of loan from the financial institution since the money repaid by the debtor of the project was brought to repay the financial institution. As at 31 December, 2020, the Group had total debt of 516.4 million baht which was similar to that of 2019. As at 31 December, 2020, the key elements of total debt could be concluded as follows:

1. Accounts payable and other current payable in the amount of 269.0 million baht, equal to 40.3 percent of total assets
2. Bank overdraft and short-term loan from financial institution in the amount of 90.9 million baht or equal to 13.6 percent of total assets, and long-term loan from financial institutions in the amount of 77.2 million baht or equal to 11.6 percent of total assets
3. Debt under lease agreement in the amount of 47.7 million baht equal to 7.2 percent of total assets
4. Other payable in the amount of 31.6 million baht equal to 4.7 percent of total assets

Total Shareholders' equity

Financial position (Unit: Million Baht)	31 Dec. 2019	31 Dec. 2020	Increase (Decrease)	%Increase (Decrease)
Issued and paid-up share capital	100.0	115.0	15.0	15.0%
Share surplus from business combination	1.2	1.2	-	-
legal reserve	4.6	7.0	2.4	52.2%
Retained earnings	4.3	27.3	23.0	534.9%
Total Shareholders' equity	110.1	150.5	40.4	36.7%



As at 31 December, 2020, the Group had shareholders' equity in the amount of 150.5 million baht, which increased by 40.4 million baht or equal to 36.7 percent compared to that at the end of 2019, mainly due to the increase of registered paid capital of the Group to support the expansion of ICT business and construction business and the increase of accumulated profit due to the increase of net profit in 2020. The key elements of shareholders' equity could be concluded as follows:

1. Paid registered capital in the amount of 115.0 million baht or equal to 17.2 percent of total assets
2. Capital surplus from merger in the amount of 1.2 million baht or equal to 0.2 percent of total assets
3. Reserve under law in the amount of 7.0 million baht equal to 1.1 percent of total assets
4. Accumulated profit in the amount of 27.3 million baht equal to 4.1 percent of total assets

Analysis of significant financial ratios

Financial ratios	Unit	For the year ended 31 December		
		2019	2020	Increase (Decrease)
Current ratio	times	0.9	1.0	0.1
Quick ratio	times	0.3	0.9	0.6
Return on Equity	Percentage	14.6	19.4	4.8
Return on Assets	Percentage	3.2	3.9	0.7
Debt to Equity ratio (D/E ratio) ¹⁾	times	4.6	3.4	(1.2)

¹⁾ Return on Equity – Fully Diluted Calculated from net profit / (Average Equity + Paid Capital at Increase from this offering of capital increase shares)

● Current ratio and Quick ratio

In 2020, the current ratio was similar to that of the Year 2019 and the quick ratio increased from the Year 2019 due to the reduction of overdraft and short-term loan from the financial institution because the Group of companies had better performance thus increasing the liquidity of operation without having to borrow more



- **Gross profit margin and Net profit margin**

The gross profit margin in 2020 increased from 2019 since the gross profit margin of the construction work was higher significantly since the Group of companies had more experience in construction project management, resulted in the improved ability to control the cost, and the revenue gained from ICT service provision was the normal service without large ICT Solution Project work as in 2019, so the Group of companies had increased gross profit margin by average; the net profit margin also increased which corresponded to the increase of gross profit margin. Also, in 2020, the return on equity and return on equity-fully diluted had increased from that in 2019, which was consistent due to the same reason.

- **Efficiency Ratios**

According to the efficiency ratio above, in 2020 the return from assets and return on equity increased from that of 2019 due to the increase of net profit.

- **Financial Policy Ratios**

Debt to equity ratio (D/E) was higher in 2019 because of the increase of loan borrowed from the financial institution in order to support the ICT business and construction business expansion. Nevertheless, in 2020 the debt to equity ratio decreased to be 3.4 times because the net profit in the year increased and due to the repayment of loan.

