

23 December 2020

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

To President

The Stock Exchange of Thailand

Kerry Express (Thailand) Public Company Limited ("the Company") provides Management Discussion and Analysis for the year ended 31 December 2019 as follows

Item	For the year ended					
	31 December 2018		31 December 2019		Change	
	THB mm	%	THB mm	%	THB mm	%
Sales and services income	13,565.35	99.25%	19,781.93	144.74%	6,216.58	45.83%
Cost of sales and services	(11,152.07)	(81.59%)	(16,704.16)	(122.22%)	5,552.09	49.79%
Gross profit	2,413.27	17.66%	3,077.77	22.52%	664.50	27.54%
Other income	102.33	0.75%	112.67	0.82%	10.34	10.10%
Selling expenses	(212.36)	(1.55%)	(318.95)	(2.33%)	106.59	50.19%
Administrative expenses	(835.04)	(6.11%)	(1,195.20)	(8.74%)	360.16	43.13%
Finance costs	(1.02)	(0.01%)	(24.05)	(0.18%)	23.03	2,257.84%
Profit before income tax	1,467.18	10.73%	1,652.24	12.09%	185.06	12.61%
Income tax	(282.08)	(2.06%)	(323.69)	(2.37%)	41.61	14.75%
Net profit for the period	1,185.10	8.67%	1,328.55	9.72%	143.45	12.10%

Sales and services income

Sales and services income consists of revenues mainly from services income in our C2C, B2C and B2B segments. For the year ended December 31, 2018 and 2019 sale and services income is THB 13,565.35 million and THB 19,781.93 million, respectively. Sales and services income increased by 45.8% from THB 13,565.35 million in 2018 to THB 19,781.93 million in 2019. The increase was primarily due to increases in sales and services income from the B2C and C2C segments as a result of the increasing popularity of e-commerce and an increase in the number of service points.

In the C2C segment, sales and service income for the year ended December 2018 and 2019 is THB 7,630.62 million and THB 10,231.78 million, respectively. The increase was primarily due to the effective marketing and sales strategies, activities and campaigns and the growth of marketing and sales team, in addition to an increase in the number of service points from 5,259 service points in 2018 to 16,525 service points in 2019, aimed at capturing the rapid growth in e-commerce activities driving the demand for private express delivery services in the C2C segment.

In the B2C segment, sales and service income for the year ended December 2018 and 2019 is THB 5,507.18 million and THB 8,948.89 million, respectively. The increase in sales and services income in the B2C segment was primarily due to increased marketing and sales effort coupled with the continued growth of e-commerce businesses in Thailand, including Lazada and Shopee, which drove demand for private express delivery services in the B2C segment.

In the B2B segment, sales and service income for the year ended December 2018 and 2019 is THB 427.54 million and THB 426.22 million, respectively. The decrease in 2019 was primarily due to lower demands from local companies in the B2B segment amidst less favorable economic conditions.

Cost of sales and services

For the year ended December 31, 2018 and 2019, cost of sales and service is THB 11,152.07 million and THB 16,704.16 million, respectively. Our cost of sales and services increased by 49.8% from THB 11,152.07 million in 2018 to THB 16,704.16 million in 2019. The increase was primarily due to increases in transportation costs, comprising fuel, subcontractor costs, facility and fleet rental and staff costs in line with increases in our segment revenues and number of parcels handled. The increase in cost of sales and services is also attributable to an increase in depreciation and amortization expenses arising from investments in the expansion of our network, including an increase in the number of sorting hubs, distribution centers and parcel service points, as well as an increase in investments into initiatives that will enhance our operational efficiency.

Gross profit

For the year ended December 31, 2018 and 2019, gross profit is THB 2,413.27 million and THB 3,077.77 million, respectively. Our gross profit increased by 27.5% from THB 2,413.27 million in 2018 to THB 3,077.77 million in 2019, due to the aforementioned reasons. Our gross profit margin for the year ended December 31, 2018 and 2019 is 17.8% and 15.6%, respectively. A decreased of gross profit margin mainly because of the increase in our cost of sales and services (which include staff expenses, facility and rental for warehouses and vehicles and depreciation expenses in connection with investments in the expansion of our network, including increasing the number of sorting hubs, distribution centers and parcel service points, as well as investments in initiatives to enhance our operational efficiency) outpaced the increase in sales and services income for the year, as we focused on building up our service capacity in preparation for future market growth opportunities.

Other income

For the year ended December 31, 2018 and 2019, other income is THB 102.33 million and THB 112.67 million, respectively. Our other income increased by 10.1% from THB102.33 million in 2018 to THB112.67 million in 2019.

Selling expense

For the year ended December 31, 2018 and 2019, our selling expense is THB 212.36 million and THB 318.95 million, respectively. Our selling expenses increased by 50.2% from THB212.36 million in 2018 to THB318.95 million in 2019. The increase in selling expenses was primarily due to increases in advertising and promotion expenses and staff costs associated with our marketing and CRM teams to fuel our business growth and enrich our brand image. Our selling expenses as a percentage of sales and services income remained relatively stable at approximately 1.6% in 2018 and 2019.

Administrative expenses

For the year ended December 31, 2018 and 2019, administrative expenses is equal to THB 835.04 million and THB 1,195.20 million, respectively. Administrative expenses increased by 43.1% from THB 835.04 million in 2018 to THB 1,195.20 million in 2019. The increase was primarily due to increases in staff costs related to strategic management and corporate functions, as well as relevant professional service fees; incurred as a part of initiative to enhance corporate management efficiency, corporate governance, risk management and internal control systems. Administrative expenses as a percentage of sales and services income remained relatively stable at 6.2% in 2018 and 6.0% in 2019, as we were able to control our expenses and improve our corporate efficiency.

Finance cost

For the year ended December 31, 2018 and 2019, our finance cost is equal to THB 1.01 million and THB 24.05 million, respectively. The increase was primarily due to an increase in loans from a financial institution to fund our working capital requirements and business expansion.

Income tax

For the year ended December 31, 2018 and 2019, our income tax is equal to THB 282.08 million and THB 323.69 million, respectively. The increase was primarily due to an increase in our taxable income.

Net profit for the year

As a result of the foregoing, net profit for the year ended December 31, 2019 increased by THB 143.45 million or 12.1%, from THB 1,185.10 million in 2018 to THB 1,328.55 million in 2019. Our net profit margin for the year ended December 31, 2018 and 2019 is equal to 8.75% and 6.7%, respectively.

Item	As of					
	31 December 2018		31 December 2019		Change	
	THB mm	%	THB mm	%	THB mm	%
Total Assets	4,767.67	100.00%	6,014.21	100.00%	1,246.54	26.15%
Cash and cash equivalents	569.15	11.94%	909.8	15.13%	340.65	59.85%
Trade and other receivables	1,550.47	32.52%	1,722.47	28.64%	172.00	11.09%
Inventories	39.12	0.82%	136.13	2.26%	97.01	247.98%
Plant and equipment	2,181.89	45.76%	2,706.04	44.99%	524.15	24.02%
Right-of-use assets	-	0.00%	-	0.00%	-	0.00%
Intangible assets	169.31	3.55%	235.25	3.91%	65.94	38.95%
Total Liabilities	3,277.86	100.00%	3,781.04	100.00%	503.18	15.35%
Trade and other payables	1,839.41	56.12%	1,800.42	47.62%	(38.99)	(2.12%)
Cash on delivery payable	970.99	29.62%	884.23	23.39%	(86.76)	(8.94%)
Loans	200	6.10%	800	21.16%	600.00	300.00%
Lease Liabilities	-		-		-	0.00%
Total Shareholder's Equity	1,489.81	100.00%	2,233.16	100.00%	743.35	49.90%
Issued and paid-up share capital	120.00	8.05%	120.00	5.37%	0.00	0.00
Equity attributable to owners of the parent	1,489.81	100.00%	2,233.16	100.00%	743.35	49.90%
Non-controlling interests	-	0.00%	-	0.00%	-	0.00%

Total Assets

Total assets as of 31 December 2019 increased by THB 1,246.54 mm or 26.15% from that of 31 December 2018. The increased was due to the increase and decreases of our net cash from or used in operating, invest and financing activities.

Total Liabilities

Total liabilities as of 31 December 2019 increased by THB 503.18 mm or 15.35% from that of 31 December 2018. The main components of total liabilities include Trade and other payables, Cash on delivery payable and Loans. The increase was due to us obtaining a long-term loan to refinance our short-term loans and fund our working capital requirements and business expansion, in line with our strategy to utilize long-term loans over short-term loans in order to better manage our liquidity and cash flow.

Total Shareholder's Equity

Total shareholder's equity as of 31 December 2019 increased by THB 743.35 mm or 49.90% from that of 31 December 2018. The changes in our equity resulted from an increase in unappropriated retained earnings, primarily due to an increase in our profit for the relevant periods.

Financial ratios

Our current ratio was 0.70x and 0.99x as at December 31, 2018 and 2019 respectively. The increase in was primarily due to an improvement in our cash flow and liquidity management, which resulted in an increase in cash and a decrease in trade and accounts payable, and our use of long-term loans to fund our expansion rather than short-term loans.

Our total liabilities to equity ratio was 2.20x and 1.69x as of December 31, 2018 and 2019 respectively. The decrease in our total liabilities to equity ratio from 2018 to 2019 was mainly attributable to a continual rise in our equity base led by increases in profit and retained earnings.

Our interest-bearing debt to equity ratio was 0.13x and 0.36x as of December 31, 2018 and 2019 respectively. The increases in such ratio in 2019 were mainly due to the drawdown of bank loans in 2019 to finance our working capital and business expansion.

Our debt service coverage ratio was 8.79x and 97.86x as of December 31, 2018 and 2019 respectively. The increase in our debt service coverage ratio in 2019 was due to our EBITDA of THB2,353.90 million (US\$74.35 million), as well as THB24.05 million in short-term loans, liabilities under lease agreements payable within one year and financing costs for the year.

Yours sincerely,

-Mr. Issarin Patramai-

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(Mr. Issarin Patramai)

Chief Investment Officer