Sri Trang Agro-Industry Public Company Limited

Management Discussion and Analysis, Q1 2018
14th May 2018

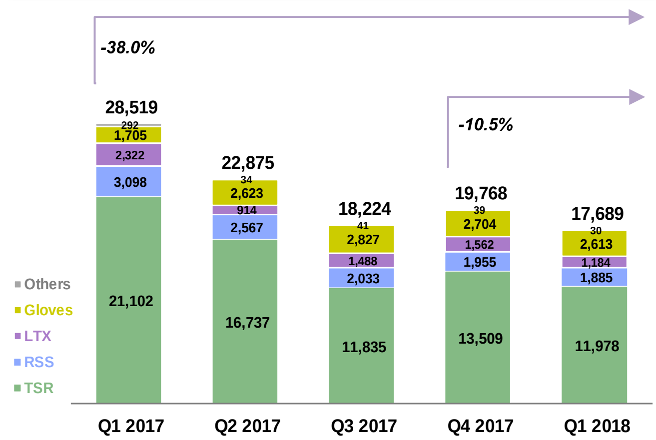
STA : The World's Leading Fully Integrated Natural Rubber Company

Financial Result Overview

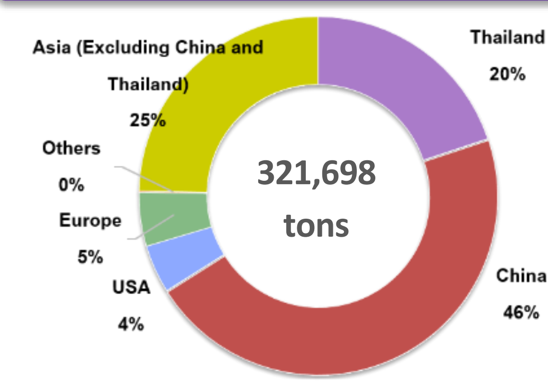
In Q1 2018, the natural rubber (NR) industry continued to be under pressure from excess NR supply that lingered from last year. The period from January until February also coincided with the peak season of NR in Thailand, the world's largest rubber producing country with production accounting for 35% of global NR supply. Despite the agreement by the International Tripartite Rubber Council (ITRC) to cut down export volumes from Thailand, Indonesia, and Malaysia, the average price of TSR20 on SICOM moved up only 1.9% compared with Q4 2017 to 146.5 cent/kg. Because of the imposition of export quota, our sales volume for NR products in Q1 2018 fell 17.2% YoY and 5.7% QoQ to 321,698 tons and our total revenue declined 38.0% YoY and 10.5% QoQ.

However, our profitability improved with a gross profit margin of 8.5% and an adjusted gross profit margin of 12.4% thanks to robust demand from domestic and overseas tire manufacturers and relatively stable NR prices. Taking into account currency exchange gains and gains from hedging transactions, our net profit for Q1 2018 came in at Baht 831.8 million.

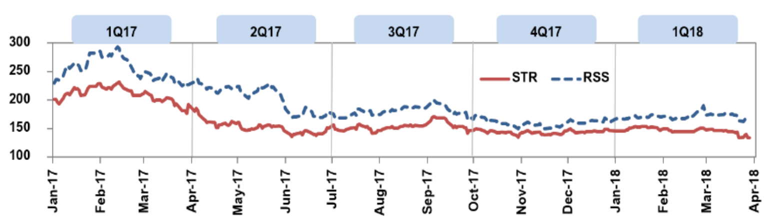
Revenues by Product (THB million)



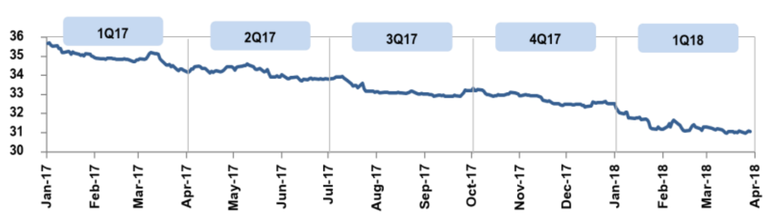
Sales Volume by Country (Q1 2018)



TSR20 and RSS3 Price Movement (US cent : Kg.)



Exchange rate of Thai Baht against US dollar



Key Financial Ratios

	1Q 2018	FY 2017	FY 2016
Gross profit margin	8.5%	4.2%	7.0%
Adjusted gross profit margin**	12.4%	4.8%	6.1%
EBITDA margin	10.2%	1.8%	1.0%
Net profit margin	4.7%	-1.6%	-1.0%
Current ratio (times)	1.14	1.10	0.97
Net D/E ratio (times)	1.33	1.47	1.73
Fixed asset turnover (times)*	2.71	4.12	4.58
Inventory Turnover (days)*	93.09	80.01	87.41
Collection Period (days)*	30.57	28.27	25.79
Payment Period (days)*	7.12	6.33	8.00

Note:
** Annualised*
*** Adjusting for (reversal) allowance of inventory cost and realised items from hedging activities*

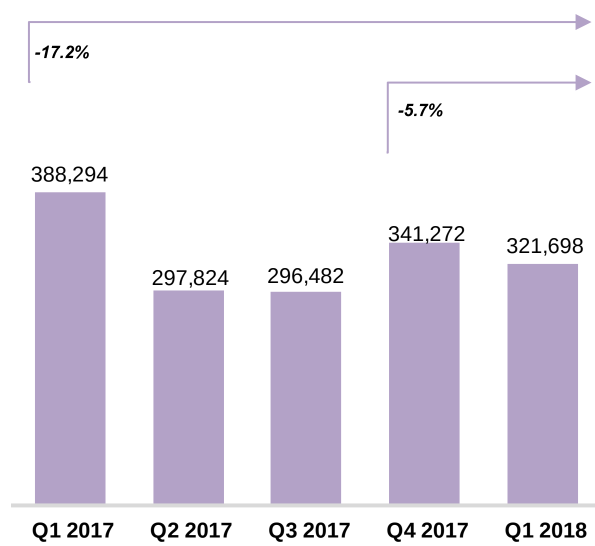
Statements of Comprehensive Income

(Unit : THB million)	Q1 2018	Q1 2017	%YOY	Q4 2017	%QOQ
Revenue from sales of goods and services	**17,689.1**	**28,519.2**	**-38.0%**	**19,768.4**	**-10.5%**
Cost of sales and services	(16,178.6)	(26,620.4)	-39.2%	(18,393.8)	-12.0%
Gross profit (loss)	**1,510.4**	**1,898.8**	**-20.5%**	**1,374.5**	**9.9%**
SG&A	(1,227.3)	(2,083.0)	-41.1%	(1,332.6)	-7.9%
Other income	95.9	215.0	-55.4%	398.0	-75.9%
Gains (loss) on exchange rate, net	303.4	249.1	21.8%	176.3	72.2%
Other gains, net	501.4	(299.8)	N/A	112.4	346.3%
Operating profit (loss)	**1,183.8**	**336.4**	**251.9%**	**728.5**	**62.5%**
Share of profit (loss) from investments in JV	80.1	57.9	38.3%	46.6	72.1%
EBITDA	**1,811.2**	**731.8**	**147.5%**	**1,325.1**	**36.7%**
EBIT	**1,264.0**	**394.4**	**220.5%**	**775.1**	**63.1%**
Finance costs (net)	(283.6)	(263.8)	7.5%	(293.3)	-3.3%
Income tax (expense)	(118.0)	(141.7)	-16.7%	25.5	-563.3%
Net Profit (loss) for the periods	**862.4**	**(11.2)**	**N/A**	**507.2**	**70.0%**
Attributed to Owners of the parent	831.8	7.6	10890.6%	468.8	77.4%
Attributed to non-controlling interests	30.5	(18.8)	N/A	38.5	-20.6%

Total revenue from products and services in Q1 2018 was Baht 17,689.1 million, decreasing 38.0% YoY and 10.5% QoQ. Revenue from NR products fell 43.3% YoY and 11.6% QoQ to Baht 15,046.5 million, as a result of a decline in both average selling price and sales volume. Average selling price dropped 31.5% YoY and 6.2% QoQ, in line with NR prices on the global markets. Revenue from gloves was Baht 2,612.9 million, growing 53.3% YoY, partially because of a change in accounting method of STGT from being a joint venture to a subsidiary as well as the expansion of gloves sales, but decreasing 3.4% QoQ due to a drop in export volume. Revenue from other products and services came in at Baht 29.6 million.

Sales volume for NR products decreased 17.2% YoY and 5.7% QoQ to 321,698 tons. The decline in sales volume can be attributed to a drop in export volume following the imposition of export quota during January – March 2018, with export volume to China, a major rubber consumer, falling the most. China nevertheless remained our largest market with 46.1% of total sales volume, while other Asian markets accounted for 24.6% of total sales volume, followed by European and the US markets at 4.9% and 4.4% of total sales volume, respectively. Sales volume for the domestic market also fell as a result of a decrease in demand for LTX and RSS, in spite of a growth in demand for TSR on the back increased demand from domestic tire manufacturers.

Sales Volume (Tons)



Revenues by Product (THB million)

	Q1 2018	Q1 2017	% YoY	Q4 2016	% QoQ
TSR	**11,977.7**	**21,102.3**	**-43.2%**	**13,508.8**	**-11.3%**
%	*67.7%*	*74.0%*		*68.3%*	
Gloves	**2,612.9**	**1,704.6**	**53.3%**	**2,703.7**	**-3.4%**
%	*14.8%*	*6.0%*		*13.7%*	
RSS	**1,884.9**	**3,098.3**	**-39.2%**	**1,955.2**	**-3.6%**
%	*10.7%*	*10.9%*		*9.9%*	
LTX	**1,183.9**	**2,321.8**	**-49.0%**	**1,561.5**	**-24.2%**
%	*6.7%*	*8.1%*		*7.9%*	
Other*	**29.6**	**292.3**	**-89.9%**	**39.1**	**-24.3%**
%	*0.2%*	*1.0%*		*0.2%*	
Total	**17,689.1**	**28,519.2**	**-38.0%**	**19,768.4**	**-10.5%**

Note: Comprised revenue from (i) the sale of rubber wood and wood packing product and (ii) the provision of certain services (such as logistics, research and development and information technology services) to our associates and a joint venture entity as well as other third parties.*

Gross profit for Q1 2018 was Baht 1,510.4 million, decreasing 20.5% YoY but growing 9.9% QoQ. Gross profit margin was 8.5%, increasing from 7.0% in Q4 2017 and from 6.7% in Q1 2017. Regardless of the reversal of inventory allwances of Baht 120.1 million and realized gains from hedging transactions of Baht 805.5 million, our adjusted gross profit margin for Q1 2018 would have climbed from 4.6% in Q4 2017 and 9.0% in Q1 2017 to 12.4% on the strength of our selective selling strategy, which put a premium on profitability.

Operating profit for Q1 2018 was Baht 1,183.8 million, rising from Baht 455.3 million in Q4 2017 and Baht 847.4 million in Q1 2017. The increase in operating profit can be partially attributed to selling expenses that decreased as a result of a fall in sales volume. But because shipping and freight costs went up as a result of higher oil prices, selling expenses did not decrease at the same pace as the decline in sales volume. A drop in administrative expenses also contributed to increased operating profit as there were expenses associated with the demerger of STA and Semperit in the amount of Baht 539 million in Q1 2017.

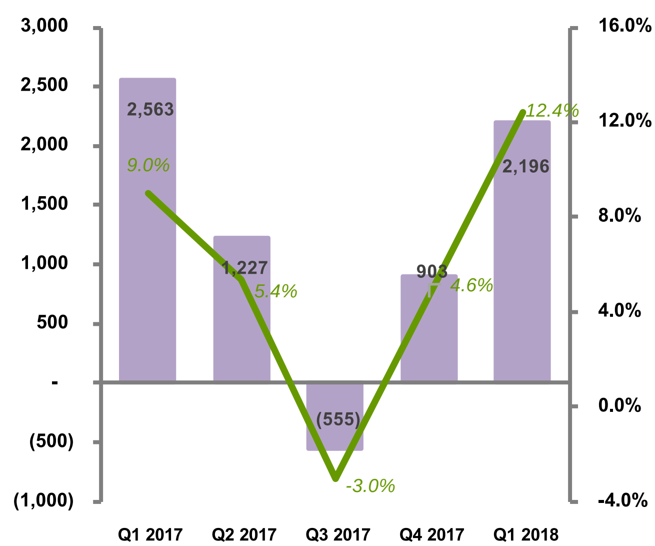
In Q1 2018, there was a non-recurring item of Baht 27.1 million in insurance claims receiving from fire damage sustained by PT Star Rubber's production facility and others. We also recorded currency exchange gains of Baht 303.4 million and gains from hedging transactions of Baht 501.4 million in Q1 2018.

Share of profits from investments in associates and joint ventures in Q1 2018 was Baht 80.1 million, growing 38.3% YoY and 72.1% QoQ, thanks to the improved operating results of our joint ventures on NR and high-pressure hydraulic hoses.

Net profit for Q1 2018 was Baht 831.8 million, increasing from Baht 7.6 million in Q1 2017 and Baht 468.8 million in Q4 2017. The growth in net profit can be attributed to increased operating profit as the financial costs dropped Baht 9.7 million compared to Q4 2017; however, the financial costs were Baht 19.8 million higher compared to Q1 2017 as a result of a currency exchange loss of Baht 48.7 million associated with US Dollar-denominated loans of subsidiaries due to the depreciation of Indonesia Rupiah (IDR) against US Dollar (USD) in Q1 2018. However, interest expenses fell 20.5% YoY and 19.0% QoQ to Baht 236.7 million as a result of a decrease in short-term loans because of reduced production capacity and lower raw material prices.

Adjusted GP and GPM*

(Unit : THB million)



Note: Adjusting for (reversal) allowance of inventory cost and realised items from hedging activities*

Business Segmentation Analysis

Technically Specified Rubber (TSR)

Revenue from TSR accounts for 67.7% of total revenue and declined 43.2% YoY and 11.3% QoQ.

The decrease in revenue YoY and QoQ resulted from a fall in both average selling price (ASP) and sales volume. ASP dropped 31.6% YoY and 6.4% QoQ in tandem with NR prices on the global markets. Sales volume fell 17.0% YoY and 5.2% QoQ as a result of the imposition of export quota. Nevertheless, gross profit margin improved compared with Q4 2017 but fell slightly compared with Q1 2017.

Gloves

Revenue from Gloves accounts for 14.8% of total revenue and rose 53.3% YoY but slightly decreased 3.4% QoQ.

The YoY growth in revenue mainly resulted from a change in accounting method following the acquisition of STGT as well as the growth of sales revenues. The QoQ fall in revenue mainly resulted from sales volume that dropped 19.7%; nevertheless ASP rose in tandem with higher raw material costs. Gross profit margin continued to grow steadily from Q1 2017 and Q4 2017.

Ribbed Smoked Sheet (RSS)

Revenue from RSS accounts for 10.7% of total revenue and fell 39.2% YoY and 3.6% QoQ.

The YoY decrease in revenue resulted from a 32.2% fall in ASP and a 10.3% drop in sales volume. The QoQ decrease in revenue resulted from an 8.8% fall in ASP, despite a 5.7% growth in sales volume on the strength of increased domestic consumption from tire manufacturers. Gross profit margin went up slightly compared with Q4 2017 but significantly improved when compared with Q1 2017.

Concentrated Latex (LTX)

Revenue from LTX accounts for 6.7% of total revenue and fell 49.0% YoY and 24.2% QoQ.

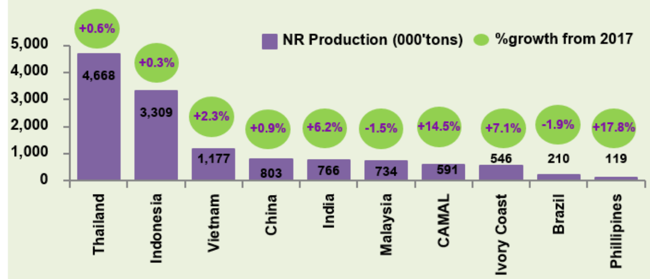
The YoY decrease in revenue resulted from a 32.7% drop in ASP, which was in line with NR prices, and a 24.2% fall in sales volume because a growth in export volume could not offset a decline in domestic consumption. The QoQ decrease in revenue resulted from an 18.0% drop in sales volume and a 7.5% fall in ASP. The decline in sales volume can be attributed to supply constraints during the start of the wintering season in March. Gross profit margin fell slightly compared with Q4 2017 but significantly improved when compared with Q1 2017.

Industry Outlook

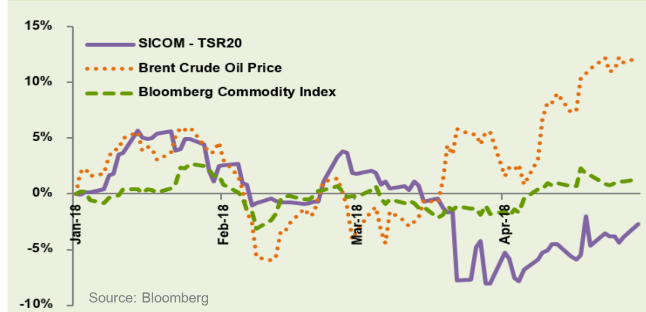
In Q1 2018, NR prices moved slightly higher compared with Q4 2017. The average price for TSR20 on SICOM for Q1 2018 was 146.5 cent/kg, increasing 1.9% on the strength of demand from tire manufacturers and glove producers that growed in tandem with the automotive industry and the global economy, even though NR supply still continued to outstrip demand. According to the latest data published by the Association of Natural Rubber Producing Countries (ANRPC), NR supply during January - February 2018 was 2,207 tons, increasing 4.3% over the same period of last year. The growth in NR supply was attributable to an increase in overall supply from Thailand, Indonesia, and Vietnam. However, as a result of an agreement by the International Tripartite Rubber Council (ITRC) to impose a quota on NR exports during January - March, 2018, export volumes from Thailand, Indonesia, and Malaysia during January - February, 2018 fell by 11.4%, while export volume from Vietnam during the same period grew by 6.5%.

Since the start of Q2 2018 in April and after the expiry of the export quota in March 2018, NR prices have started to move in the same direction as, but still not being able keep pace with, prices of oil and other commodities. NR consumption by overseas tire manufacturers is also expected to grow. Additionally, the NR and compound rubber (CR) inventory in Qingdao, China also decreased by 23,000 tons from the previous quarter and dropped by 44,000 tons from last year's average to 111,500 tons at the end of Q1 2018. These are factors that could lead to an increase in NR prices in Q2 2018. However, a substantial increase in NR supply after the end of wintering season (which lasts from late February until May) or a shortened wintering season would continue to suppress NR prices.

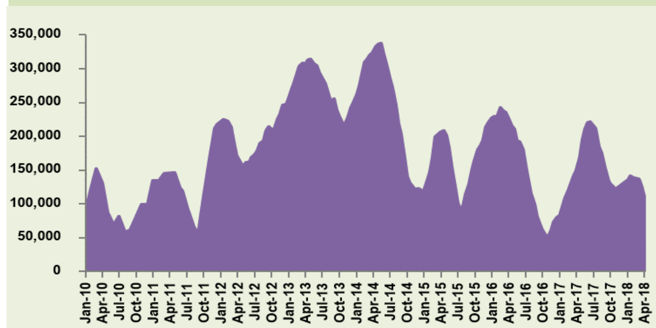
NR Production from Top 10 Producing Countries



Commodity Price Movement



NR and CR Stocks at Qingdao, China (tons)



Note :

**source Natural Rubber Trends and Statistics, February 2018, prepared by Association of Natural Rubber Producing Countries (ANRPC)*
***ANRPC members including Bangladesh Cambodia, China, India, Indonesia, Malaysia, Philippines, Sri Lanka, Vietnam, Singapore, Papua New Guinea, and Thailand*

Progress of Our Business Growth Plan throughout the Supply Chain

Upstream Business – approximately 50,000 rai of rubber plantations

As of 31 March 2018, we owned approximately 50,000 rai of rubber plantations in 19 provinces of Thailand, with the majority in the north and northeast. Rubber trees have been planted in 89% of the plantations and some portions have been providing yields since 2015. We estimate that, in 2018, rubber trees that are ready to be tapped will account for 3% of total rubber trees, a development that would benefit our core business in the midstream.

Midstream Business – moving toward "STA 20"

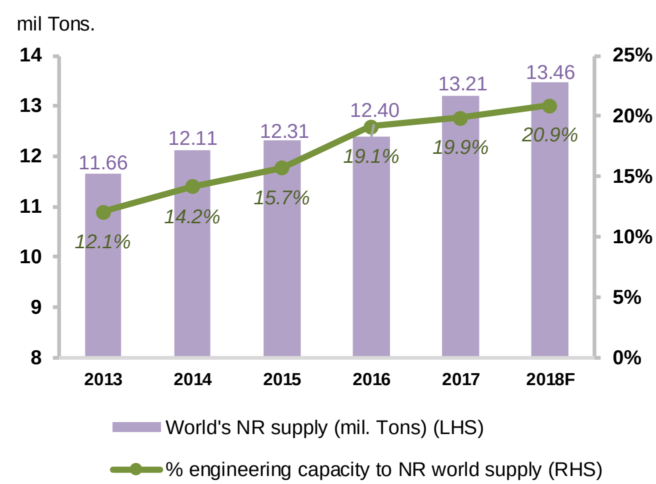
As of 31 March 2018, we had a production capacity of 2.6 million tons per annum. In the long term, we remain committed to achieving STA 20, i.e. gaining a market share of 20% of global NR consumption (In 2017, our market share was 10% of global NR consumption.). To that end, we have been focused on customer relations and broadening our customer base while continuing to expand our production capacity. We aim have a production capacity of 2.8 million tons per annum by the end of 2018. The additional capacity will come from the two production facilities in Chiang Rai and Sakonnakorn that were built last year, and also from the facility in Indonesia that sustained damage in a fire in 2016 and is expected to resume full operation within mid-2018, as well as from the expansion of production capacity in relation to LTX at the existing facilities in order to support the expansion of our glove business.

Downstream Business – aiming to be among the world's top three glove producers

We intend to capitalize on our competitive advantage over competitors, which is access to quality concentrated latex, the main raw material in glove production. We will continue to produce nitrile gloves to satisfy customer demand from around the world. In 2017, we had a market share of 8% of global glove consumption.

As of 31 March 2018, our production capacity was 15,700 million pieces per annum. We aim to increase our production capacity to 16,000 million pieces of gloves per annum within 2018 and 18,000 million pieces per annum within 2019 to keep up with demand for gloves, which is growing 6-8% per annum. Our eventual aim is to rank among the world's top three glove producers.

Proportion of Sri Trang Group Capacity to NR Global Supply



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