

STA : A World Leading Natural Rubber Player

Financial result overview

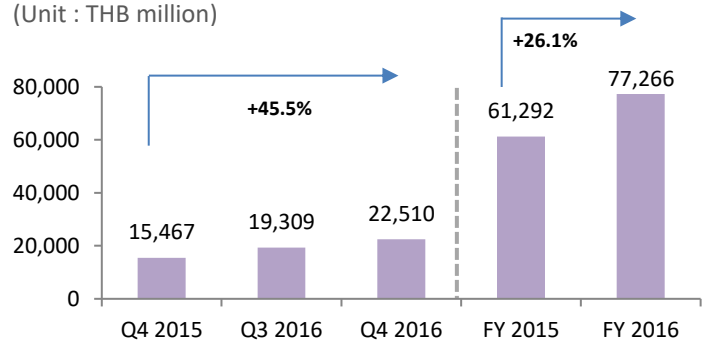
In 2016, Natural Rubber (NR) industry was in the transition period. After the Natural Rubber (NR) price bottomed out in Q1 2016, positive market momentum bolstered by the suppressed NR supply coupled with the imposition of an export quota by Thailand, Malaysia and Indonesia during March to August 2016 triggered an accelerating growth in NR demand and positive price adjustment.

Amid Raw Material (RM) supply constraints, our sizable scale of business and well-diversified locations of processing facilities along with our strong raw materials procurement networks enabled us to procure ample raw materials which prompted us to capture the rising demand from better market sentiment. Accordingly, our sale volume for the year 2016 hit a record high of 1,494,094 tons, up 33.4% YoY, boosting our world market share from 9% to 12% and resulting in YoY increase of both revenue and gross profit.

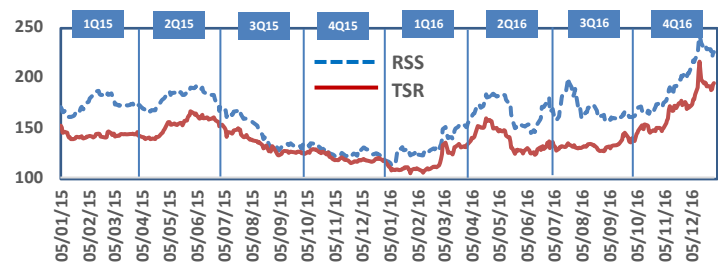
However, the volatility of NR price, especially during the final quarter of 2016 when price has shot up for approximately 60% from the stimulus policy of the President Donald Trump, brought about the loss from rubber derivative financial instruments. Together with an increase in SG&A expenses, lower profits shared from associates and joint ventures, lower gains on exchange rate, and non-recurring expenses, resulted in negative impacts to our net performance in 2016.

Revenues from sales

(Unit : THB million)



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



Exchange rate of Thai Baht against US dollar



Key financial ratios

Key Financial Ratios	FY 2016	FY 2015
Gross profit margin	7.0%	5.7%
Adjusted gross profit margin*	6.0%	8.1%
EBITDA margin	1.0%	4.9%
Net profit margin	-1.0%	1.8%
ROA	-1.5%	2.7%
ROE	-3.7%	5.3%
Current ratio (times)	0.97	1.21
D/E ratio (times)	1.81	1.06
Net D/E ratio (times)	1.73	0.95
Fixed asset turnover (times)	4.58	3.87
Inventory Turnover (days)	87.41	74.75
Collection Period (days)	25.79	22.77
Payment Period (days)	8.00	9.58

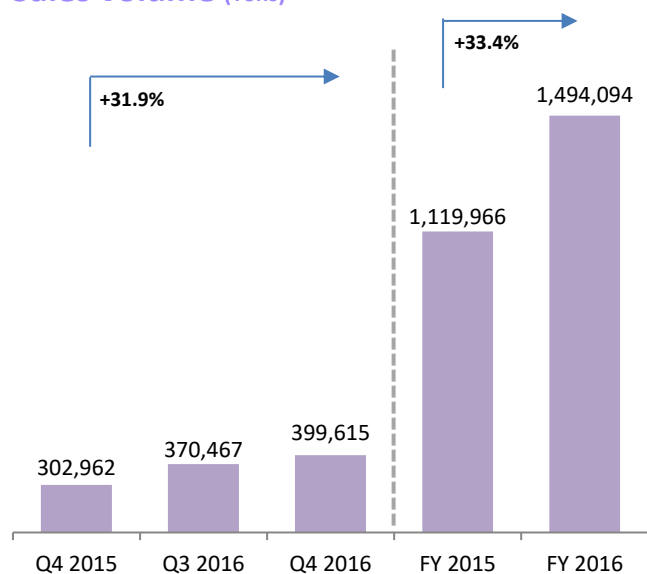
Note*: Adjusting for (reversal) allowance of inventory cost and realised items from hedging activities

Statements of Comprehensive Income

(Unit : THB million)	FY 2016	FY 2015	% YoY	Q4 2016	Q4 2015	%YoY
Revenue from sale of goods and services	77,265.5	61,291.8	26.1%	22,510.4	15,466.8	45.5%
Cost of sales and services (net)	(71,852.0)	(57,770.6)	24.4%	(20,889.1)	(14,849.5)	40.7%
Gross profit	5,413.5	3,521.2	53.7%	1,621.3	617.3	162.7%
SG&A	(5,436.0)	(3,713.4)	46.4%	(1,952.5)	(1,120.8)	74.2%
Other income	197.5	186.3	6.0%	59.0	80.3	-26.5%
Gain on exchange rate (net)	6.4	214.2	-97.0%	(35.5)	(91.3)	61.1%
Other gains (losses),(net)	(985.1)	1,095.3	-189.9%	(1,110.1)	335.0	-431.4%
Operating profit (loss)	(803.7)	1,303.6	-161.7%	(1,417.8)	(179.6)	-689.6%
Profit sharing from associate companies and joint ventures	402.8	648.8	-37.9%	101.5	187.9	-46.0%
EBITDA	794.3	3,007.5	-73.6%	(983.1)	313.8	-413.3%
EBIT	(400.9)	1,952.4	-120.5%	(1,316.3)	8.3	-15921.8%
Finance costs (net)	(672.0)	(809.1)	-16.9%	(320.1)	(33.7)	850.7%
Income tax	283.2	(31.5)	-998.7%	321.1	(20.4)	-1672.2%
Net Profit (loss) for the period	(789.7)	1,111.8	-171.0%	(1,315.3)	(45.8)	-2773.7%
Attributed to Owners of the parent	(758.0)	1,118.0	-167.8%	(1,303.1)	(47.1)	-2664.2%
Attributed to non-controlling interests	(31.7)	(6.3)	-405.6%	(12.2)	1.4	-987.7%

In 2016, our **revenue from sale of goods and services** was Baht 77,265.5 million, increased by 26.1% YoY. This was mainly driven by 33.4% growth of sale volume as a result of a pickup NR demand from tyre producers, despite being offset by a 4.8% decline in average selling price.

Sales volume (Tons)



Sale volume Amid the raw material supply constraints caused by a prolonged leaf shedding period followed by an excessive rainfall in Thailand, **our sale volume for the year 2016 hit a record high of 1,494,094 tons** or increased by 33.4% from the year 2015 when our strategy of selective selling to sacrifice market share in order to maintain profitability was implemented. Our sizable scale of business and well-diversified locations of processing facilities together with our strong raw materials procurement network in key strategic areas did not only boost competitiveness in terms of accessibility to the source of raw materials but also allow us to benefit from the continuing resilient NR demand. Thus, our sale volume growth considerably outgrew the global NR consumption growth at 3.0%, enabling us to boost our market share from 9% to 12% of global NR consumption. The substantial increase in total sales volume was attributable to the increase in sales volume in China, Thailand, Singapore, Europe, and India.

Revenues by product (THB million)

	FY 2016	FY 2015	% YoY	Q4 2016	Q4 2015	% YoY
TSR	56,133.4	44,482.7	26.2%	16,630.2	11,006.2	51.1%
%	72.6%	72.6%		27.1%	71.2%	
RSS	7,305.3	5,462.4	33.7%	2,056.8	1,346.5	52.8%
%	9.5%	8.9%		3.4%	8.7%	
LTX	6,088.0	4,774.2	27.5%	1,920.1	1,316.1	45.9%
%	7.9%	7.8%		3.1%	8.5%	
Other*	7,738.8	6,572.5	17.7%	1,903.3	1,797.9	5.9%
%	10.0%	10.7%		3.1%	11.6%	
Total	77,265.5	61,291.8	26.1%	22,510.4	15,466.8	45.5%

Note*: Comprises 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 external third parties (iii) the sale of gloves

Our gross profit in 2016 grew 53.7% YoY to Baht 5,413.5 million thanks to our world's largest position and our fully-integrated business model that enabled us to lead the market and capture the rising demand from better market sentiment. The gross profit margin also improved from 5.7% in 2015 to 7.0% in 2016. However, assuming the reversal of inventory allowance of Baht 453.7 million was not made in 2016 but including realised loss of Baht 273.8 million from our hedging activities, our adjusted gross profit margin in 2016 would have been at 6.0%, decreased from 2015 at 8.1%.

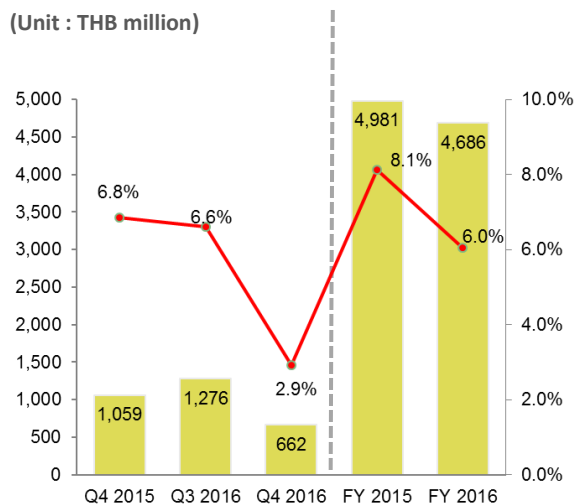
Operating loss for the year 2016 amounted to Baht 803.7 million, down from operating profit of Baht 1,303.6 million in 2015. Despite of an increase in gross profit, the operating loss was due principally to higher selling and administrative expenses (SG&A), other loss from rubber derivative financial instruments due to a rapid transition of NR price during the final quarter of 2016, and lower gains on exchange rate owing to high volatility of US dollar against Thai Baht. The increase of SG&A was as a result of our record high sale volume. The increase of selling expenses was mainly driven by higher ccess expenses, freight, transportation expenses, and commission. Meanwhile, the increase of administrative expenses was primarily due to non-recurring items.

Net loss of Baht 758.0 million was recorded in 2016 compared with net profit of Baht 1,118.0 million in 2015. The decline in net profit margin was primarily as a result of the operating loss and lower share of profit from our glove business caused by the intense competition in the industry, despite being offset by lower income tax and lower finance costs thanks to more favourable movement of IDR against USD.

As of 31 December 2016, the Company had Baht 2,909.7 million unrecognized / unrealised surplus from inventory revaluation which was the difference in inventory value between the net realisable value and lower of cost or net realisable value.

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 the sale of TSR, our core product, grew 26.2% YoY due to an increase in sale volume of 33.7% despite partly offset by a decrease in average selling price of 5.6%.

Our well-diversified locations of processing facilities and our strong raw materials procurement network enabled us to capture a pick-up in NR demand amid raw material supply constraints.

As a result of this, our sale volume in 2016 significantly expanded in comparison with the year 2015 when our strategy of selective selling was implemented. Gross profit for TSR also increased 83.1% YoY led to an increase in gross profit margin.



Ribbed Smoked Sheet (RSS)

Revenue from the sale of RSS expanded by 33.7% YoY, which was mainly contributed by a 37.5% increase in sales volume owing to more favorable market sentiment despite being offset by a decrease in average selling price of 2.7%.

Prolonged wintering period from unusual drought discouraged rubber farmers to produce unsmoked sheet (raw material of RSS) since it requires more procedures, more workers, and longer production period compared to field latex (raw material of LTX). Moreover, the increase in both demand and prices of LTX exacerbated a shortage of unsmoked sheet as rubber farmers tend to produce field latex rather than unsmoked sheets when the price gap becomes closer.

As a result of this, our gross profit from the sale of RSS contracted 18.2% YoY and gross profit margin was also tapered.



Concentrated Latex (LTX)

Revenue from the sale of LTX rose 27.5% YoY. The expansion in revenue was primarily driven by a 28.0% increase in sales volume as a result of continuing robust demand while the average selling price marginally declined by 0.4%. Gross profit for LTX grew 3.2% YoY; nonetheless, gross profit margin was softer since the RM supply constraints have brought up the field latex price.

Industry outlook

Unit : 000'tons	2015	2016F	2017F
NR production	12,275	12,449	12,917
% change	1.2%	1.4%	3.8%
NR consumption	12,146	12,505	12,872
% change	-0.3%	3.0%	2.9%
NR Balance	129	(56)	45

Source: The World Rubber Industry Outlook forecasted by International Rubber Study Group (IRSG), December 2016

After the end of 5-year bearish market sentiment at the beginning of 2016, NR market upheld by stronger fundamental demand & supply and macroeconomic outlook have entered the transition period. Steady global economic activity, stimulus package of the US, and the new China's truck weight limit regulations brighten NR demand prospect whilst NR supply continues to be curtailed by a scarcity of skilled tapper as a consequence of prolonged period of low NR prices and by abnormal weather conditions.

An excessive rainfall and flooding in southern Thailand in January 2017 have curbed global NR production to a certain level since more than 70% of output is represented by southern Thailand and January is usually the peak NR output. This limited supply impact is also evidenced by the successful release a significant amount of the Thai Government's NR stock with an average age of 3 years to a number of NR producers at the price that closed to market price. Moreover, the reprocessing of such released old NR stock also requires additional fresh NR raw materials in order to maintain a quality NR products. This can imply that new NR supply could be potentially insufficient to meet the NR demand during the upcoming leaf-shedding season.

Notwithstanding almost a year of recovery, NR price remains at low level comparing with the past decade price movement. Meanwhile, current level of oil price, synthetic rubber price, and NR stock at Qingdao in China indicates a limited downside risk for NR prices. However, more vigorous growth of real demand is still requisite to sustainable price improvement.

Above all, uncertainties of major countries' policy as well as volatilities in global commodity, foreign exchange, and stock markets will remain the main factors to weigh on sentiment in the NR market.



Demand & Supply Balance

IRSG projected global NR demand in 2017 to be 12,872,000 tons, increasing 2.9% YoY. The growth is mainly driven by China, the world's largest consumer of natural rubber. As for NR supply, IRSG forecasted that NR production will grow at 3.8%, reaching 12,917,000 tons in 2017. The largest sources of additional supply volumes are China, Indonesia, and CAMAL* countries, while supply from Thailand, the world's largest NR producing country, will be curtailed by unfavorable weather conditions.

From 2017 onwards, NR supply from new plantations is expected to grow at a slower rate since there have been much fewer new planting activities after the uptrend in NR prices that lasted from 2005 to 2008. Moreover, the prolonged period of low NR prices has induced rubber farmers to switch to other more profitable crops, postpone new planting/re-planting schedule and reduce tapping activities. Meanwhile, NR demand continues to be healthy, supported by the solid growth of the tire industry, which represents approximately 70% of NR consumption. The IRSG therefore anticipated that NR supply surplus in 2017 will hover around 45,000 tons, which is close to the equilibrium point.

Note*: CAMAL countries include Cambodia, Myanmar and Lao PDR.

Progress of our business growth plan in value chain

Upstream Business – continue to bring synergy to our Group’s business operation

To reinforce our position as a fully integrated natural rubber company, we will continue with the efficient management of our rubber plantations, which provides us with valuable insights regarding natural rubber supply that we can utilize to our advantage in the management of our midstream and downstream operations. Having our own plantations also helps us identify areas where we can potentially set up a new production facility. In the past we decided to set up new processing facilities in 4 provinces, namely Phitsanulok, Kalasin, Sakaeo, and Sakon Nakhorn following the development of our own rubber plantations in those areas.

The Company has achieved target in securing land of approximately 50,000 rai (8,000 hectares) for rubber plantations, the majority of which are located in the north of Thailand, an area to which we can potentially expand our production base. More than half of rubber trees of our plantations will be ready for tapping within a few years.

Midstream Business – Continuous capacity expansion to capture a market share of 20% of global NR consumption

We will continue with the yearly expansion of our production capacity by setting up new production facilities with cutting-edge technology in new strategic locations, for example, in the north of Thailand. With strong sales, R&D, quality control and CSR teams who are committed to working collaboratively to ensure customers’ satisfaction, we are confident that we will be able to set a new record in sales volume every year from now on, which will enable us to ultimately attain “STA 20,” that is, to capture a market share of 20% of global NR consumption.

As at 31 December 2016, our engineering annual capacity was registered at industry record at 2.4 million tons per annum. The additional capacity of 61,000 tons from year ended 2015 came from our new TSR plants in Loei (Thailand).

Downstream – becoming a major shareholder of examination glove business

Upon the approval of the shareholders at Extraordinary General Meeting of Shareholders No. 1/2017 which will be held on 14 March 2017, the company will enter into the demerger with Semperit Technische Produkte Gesellschaft m.b.H. This will result in the Company becoming 90.2% ownership (increasing from 40.2%) of Siam Sempermed Corp., Ltd. (“SSC”).

As a major shareholder, the Company will have sole discretion and flexibility over all aspects of the operations of SSC, one of the top five largest manufacturers of examination rubber gloves in the world, which will not only strengthen the overall business operation of the Group as a fully-integrated natural rubber company but also emphasize the Company’s position as the world leader in natural rubber industry.



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