Sri Trang Agro-Industry Public Company Limited

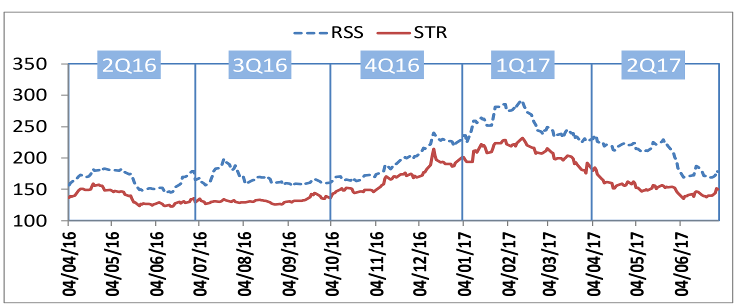
Management Discussion and Analysis, Q2 2017
11th August 2017

STA : The World's Leading Natural Rubber Player

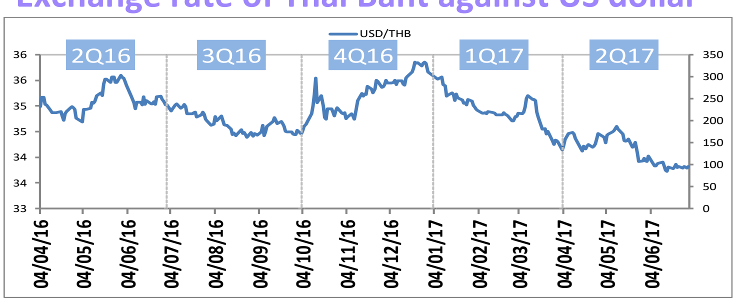
Financial result overview

In Q2 2017, the natural rubber industry has been largely affected by the price volatility which has been led by the influence of futures market prices particularly from Shanghai Future Exchange (SHFE) in China. During Q2 2017, the total trading volume of natural rubber futures in SHFE was as high as 433.8 million tons or 35 times higher than the world consumption of natural rubber of 12.6 million tons for the whole year 2016. Similarly, high volatility has also been observed in SICOM market. During the quarter, the STR price dropped from previous high of 231.6 cent/kg in mid of February to hit a low 135.3 cent/kg or 41.6% plummet and consolidated back to 150.2 cent/kg at the end of the quarter. Our revenue decreased by 19.8% QoQ (but increased 22.0% YoY) reflecting our lower production and sale volume of 17.5% YoY and 23.3% QoQ to 297,824 tons in avoidance of any adverse effect on profitability (which was not attributed by demand-supply fundamental) due to the fact that the price of raw materials decreased marginally compared to the decline in the selling price benchmarked against SICOM. Nevertheless, adjusting gross profit margin by assuming there was no inventory allowances of Baht 1,878.3 million and realised gains on hedging activities, the adjusted gross profit margin would have been at 5.4% decreased from the adjusted gross profit margin in Q2 2016 and Q1 2017 at 10.7% and 9.0% respectively.

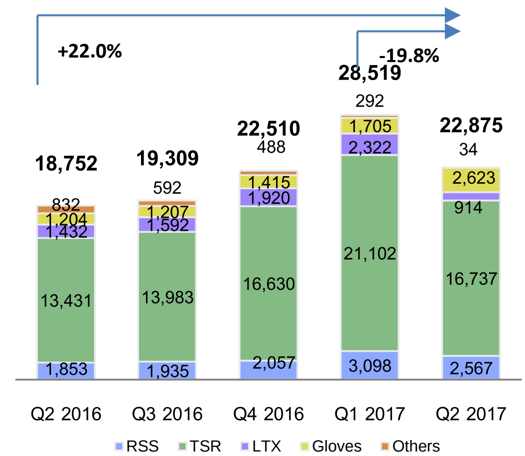
TSR20 and RSS3 Price movement (US cent : Kg.)



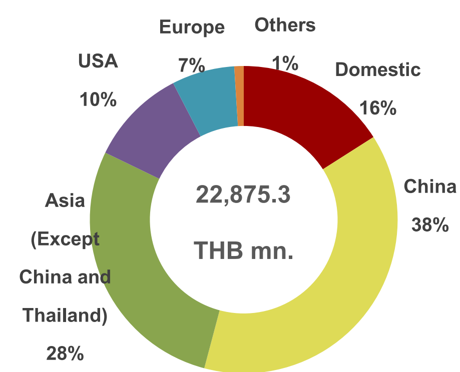
Exchange rate of Thai Baht against US dollar



Revenues by product (THB million)



Sales Revenue by Country (Q2'17)



Key financial ratios

Key Financial Ratios	Q2 2017	Q2 2016	Q1 2017
Gross profit margin	-3.5%	10.3%	6.7%
Adjusted gross profit margin**	5.4%	10.7%	9.0%
EBITDA margin	-7.1%	6.4%	2.6%
Net profit margin	-9.1%	4.3%	0.0%
Current ratio (times)	0.91	1.32	1.00
Net D/E ratio (times)	2.11	0.98	2.20
Fixed asset turnover (times)	4.67*	4.26*	5.87*
Inventory Turnover (days)	51.53*	68.85*	80.74*
Collection Period (days)	28.72*	24.97*	27.53*
Payment Period (days)	5.29*	8.79*	5.79*

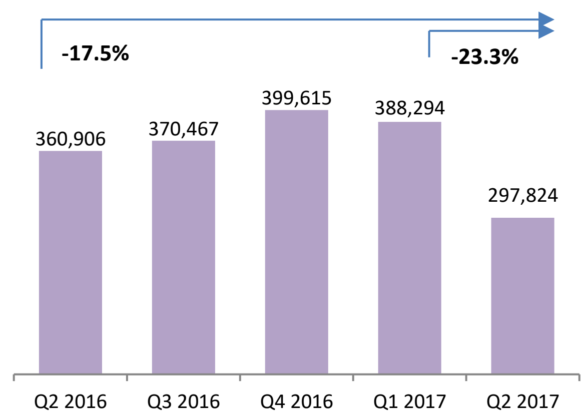
Note:
** Annualised*
*** Adjusting for (reversal) allowance of inventory cost and realised items from hedging activities*

Statements of Comprehensive Income

(Unit : THB million)	Q2 2017	Q2 2016	% YoY	Q1 2017	%QoQ
Revenue from sale of goods and services	**22,875.3**	**18,751.6**	**22.0%**	**28,519.2**	**-19.8%**
Cost of sales and services	(23,686.0)	(16,813.7)	40.9%	(26,620.4)	-11.0%
Gross profit (loss)	**(810.7)**	**1,938.0**	**N/A**	**1,898.8**	**N/A**
SG&A	(1,319.6)	(1,183.0)	11.5%	(2,083.0)	-36.6%
Other income	28.0	44.9	-37.6%	215.0	-87.0%
Gains (loss) on exchange rate, net	42.8	(49.3)	N/A	249.1	-82.8%
Other gains, net	33.9	64.3	-47.3%	56.5	-40.1%
Operating profit (loss)	**(2,025.6)**	**814.9**	**N/A**	**336.4**	**N/A**
Share of profit (loss) from investments in associates and joint ventures	(57.3)	92.5	N/A	57.9	N/A
EBITDA	**(1,626.7)**	**1,200.8**	**N/A**	**731.8**	**N/A**
EBIT	**(2,082.9)**	**907.3**	**N/A**	**394.4**	**N/A**
Finance costs (net)	(310.3)	(80.7)	284.5%	(263.8)	17.6%
Income tax (expense)	307.0	(33.5)	N/A	(141.7)	N/A
Net Profit (loss) for the periods	**(2,086.2)**	**793.2**	**N/A**	**(11.2)**	**18526.7%**
Attributed to Owners of the parent	(2,080.1)	801.5	N/A	7.6	N/A
Attributed to non-controlling interests	(6.1)	(8.4)	-27.0%	(18.8)	-67.4%

Total revenue from the sale of Q2 2017 was Baht 22,875.3 million, increased by 22.0% YoY but decreased by 19.8% QoQ. The YoY increase was due to a significant higher average selling price by 46.6% along with the uptrend of natural rubber price from the last year. In QoQ comparison, there was a slightly decrease of average selling price by 0.6% but the sale volumes decreased by 23.3% as a result of lower production and sale volume in avoidance of any adverse effect of massive price volatility on profitability which was not attributed by demand-supply fundamental. Our revenue was mainly attributed by Chinese market at 38.2% of total revenue, followed by Asia market of 28.0%, domestic market of 16.0%, US 10.2% and Europe 6.6%.

Sales volume (Tons)



Revenues by product (THB million)

	Q2 2017	Q2 2016	% YoY	Q1 2017	% QoQ
TSR	**16,737.0**	**13,431.4**	**24.6%**	**21,102.3**	**-20.7%**
%	*73.2%*	*71.6%*		*74.0%*	
RSS	**2,567.0**	**1,852.7**	**38.6%**	**3,098.3**	**-17.1%**
%	*11.2%*	*9.9%*		*10.9%*	
LTX	**914.0**	**1,431.8**	**-36.2%**	**2,321.8**	**-60.6%**
%	*4.0%*	*7.6%*		*12.4%*	
Gloves	**2,623.3**	**1,204.2**	**117.8%**	**1,704.6**	**53.9%**
	11.5%	*6.4%*		*9.1%*	
Other*	**34.0**	**831.5**	**-95.9%**	**292.3**	**-88.4%**
%	*0.1%*	*4.4%*		*1.6%*	
Total	**22,875.3**	**18,751.6**	**22.0%**	**28,519.2**	**-19.8%**

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 third parties*

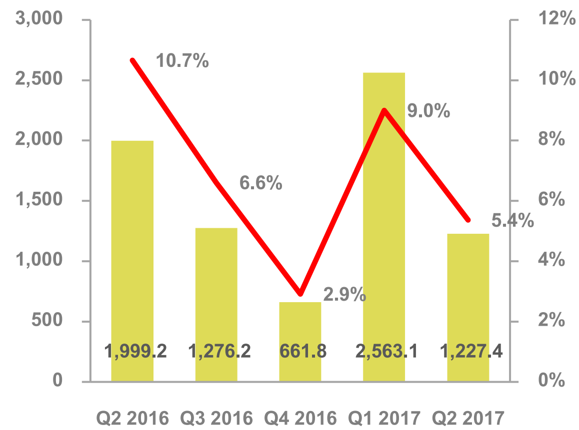
Adjusted Gross Profit in Q2 2017 was Baht 1,227.4 million, excluding the inventory allowances of Baht 1,878.3 million and the realised gains on hedging activities of Baht 159.8 million, resulting to the adjusted gross profit margin of 5.4% lower than the adjusted gross profit margin of Q2 2016 and Q1 2017 at 10.7% and 9.0% respectively. The high price volatility has been evidenced in Q2 2017 by 27% decline in STR price at SICOM, while raw material prices in physical market did not move in a similar fashion. As a trustworthy manufacturer, we had to deliver products at contracted prices, which mainly benchmarked against SICOM, with a relative high cost of production. Nevertheless, commitment to our customers is the business ethics we always abide. This is the reason why we are the longstanding most trusted supplier to our customers worldwide.

Operating Profit in Q2 2017 decreased YoY by Baht 814.9 million and QoQ by Baht 336.4 million. In this quarter, our selling expenses was Baht 828.6 million representing 3.6% to revenue from sales, unchanged from Q1 2017 (although cess rate was lower and freight was higher in Q2 2017), but decreased from Q2 2016 at 3.9% to revenue from sales (depite an increase in cess rate, freight and transportation expenses).

Administrative expenses in Q2 2017 was Baht 491.0 million, equivalent to 2.1% of revenue from sales, decreased from Q1 2017 at 3.4% of revenue from sales (due to demerger expenses) and decreased from Q2 2016 at 2.4% of revenue from sales, even though there was a one time expense relating to the reorganisation in order to increase efficincy, maintain low cost of production and enhance competitiveness in the industry.

Share of profit from investment in associate and joint venture companies in Q2 2017 was Baht (57.3) million decreased from Baht 92.5 million in Q2 2016 and Baht 57.9 million in Q1 2017. This was mainly from the changes in accounting recognition as a result of the demerger since 15 March 2017. The loss of joint venture in this quarter was attributed to natural rubber production business.

Adjusted GP and GPM*



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 rose by 24.6% YoY but decreased by 20.7% QoQ.

The YoY increase was primarily attributable to an increase in average selling price of 44.4% despite the decrease of sale volume by 13.7%. In contrast, QoQ revenue declined due to the decrease of both sale volume and average selling price by 18.1% and 3.2% respectively after we reduced our production and sale volume in midst of high price volatility. In Q2 2017, we had negative gross profit margin of TSR due mainly to the inventory allowances as TSR is our major product and the prices are usually referred to SICOM.

Ribbed Smoked Sheet (RSS)

Revenue from the sale of RSS rose by 38.6% YoY but decreased by 17.1% QoQ.

In Q2 2017, the average selling price increased by 57.2% YoY and 5.3% QoQ. The lower of production was resulted to the lower sale volume 21.3% QoQ and 11.9% YoY. Gross profit margin in Q2 2017 improved from Q1 2017, but slightly lower than Q2 2016.

Concentrated Latex (LTX)

Revenue from the sale of LTX decreased by 36.2% YoY and 60.6% QoQ.

The decrease of revenue was mainly from the decrease in sale volume by 51.2% YoY and 59.5% QoQ, despite the average selling prices increased 30.7% YoY but decreased 2.8% QoQ. Gross profit margin of LTX in this quarter decline slightly compared to Q1 2017 and Q2 2016.

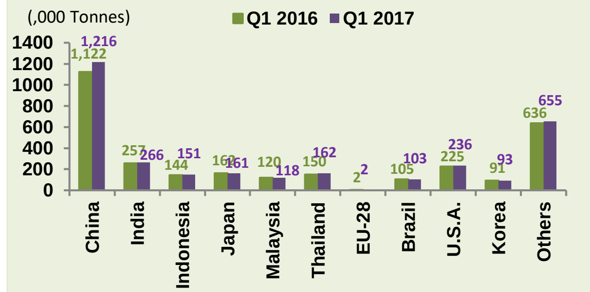
Gloves

Q2 2017 was the first full quarter that we consolidate the performance of gloves business in our group financial statement at Baht 2,623.3 million. Previously, only revenue from the sale of gloves through our distribution channels was recorded in our financial statement. After the demerger, total revenue from Sri Trang Gloves (Thailand) Co., Ltd. (STGT) including sales to any 3rd party customers has been consolidated in our group financial statements. In Q2 2017, revenue from glove business increased 117.8% YoY and 53.9% QoQ.

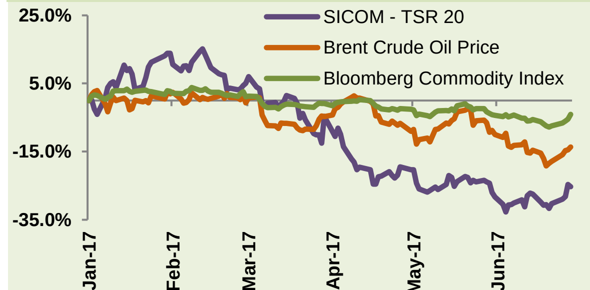
Industry Outlook

In Q2 2017, natural rubber (NR) price continued its huge volatility in trading. The STR price in SICOM market decreased from its peak in February at 231.6 cent/kg to the low of 135.3 cent/kg or 41.6%. This was influenced by a massive speculative trading of futures prices in Shanghai Futures Exchange (SHFE) in China, where its monthly average trading volume during the first-half of the year 2017, was as high as 133 million tons. However, the sign of stabilization has started to appear towards the quarter end, similar to other commodities such as copper, iron or crude oil, despite relatively smaller scale. With the help of government intervention in Thailand and the weakening of the USD, we would expect the rubber price to consolidate at the current level. This is in line with the IRSG study highlighting that the natural rubber demand continues its expansion trend by 4.9% YoY driven by an 8.3% increase in Chinese market. If the current trend continues, we may have seen the bottom of the rubber price already.

Natural Rubber Consumption

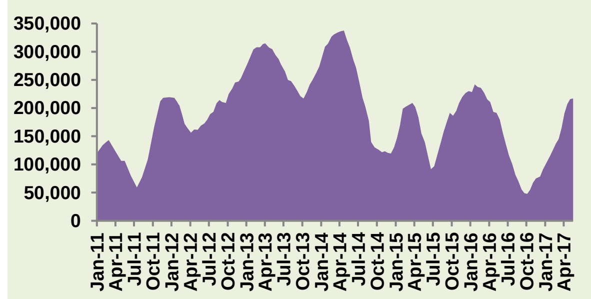


Price Performance of TOCOM – RSS3 (YTD)



Source: Bloomberg

NR stock at Qingdao, China (tons)



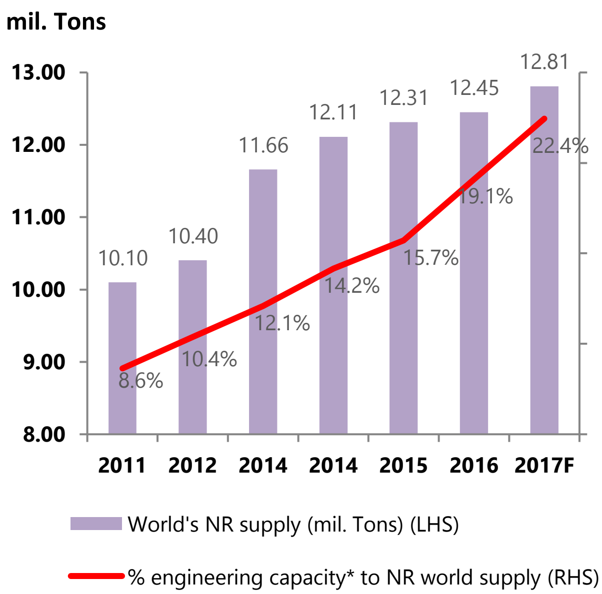
Source: Bloomberg

Progress of Business Growth Plan

Upstream Operations – Approximately 8,000-odd hectares of land already secured for rubber plantations

As of 30 June 2017, Sri Trang Group has obtained approximately 8,000 hectares of land suitable for the cultivation of rubber trees in several provinces of Thailand and were already been planted with rubber trees by more than 87%. Some of which have been ready for tapping but we expect a commercial harvesting will take place in the next 2-3 years. This will be an advantage for our mid-stream business both for raw material procurement and NR production.

Proportion of Sri Trang Group Capacity to NR World Supply



Midstream Operations – moving towards "Sritrang 20"

As of 30 June 2017, our engineering capacity was recorded at an industry high of 2.4 million tons per annum. Our plan to achieve the engineering capacity of 2.9 million tons in 2017 is still on track. The new capacity will come from our 37th new factory in Sakonnakorn which is expected to commence production in year end. In addition, new capacity would also be contributed by existing plants in Palembang (Indonesia) as well as other TSR factories in the Northeast of Thailand and LTX factories to support the expansion of downstream-gloves business. We still target to achieve **"Sritrang 20"** or have sale volume contribution to 20% of world demand (in 2016 we had sale volume represented 12% of world demand). The temporary capacity reduction in Q2 2017 has been an acute effect from severed price volatility. We do not expect such phenomenon would last long as it is detrimental to the sustainability of the whole NR supply chain.

Downstream Operations – Not only strengthen our financial performance but also competitiveness

In this quarter, company consolidated STGT in the group financial statement for the first whole quarter after increasing the ownership in from 40.2% to 90.2% on 15 March 2017. Apparently, the profit margin and the volatility of the gloves business are relatively more resilient than the midstream. We, therefore, plan to expand the capacity of gloves from 14 billion to 16 billion pieces per annum which will be completed in Q2 2018. This is compatible with our long-term goal to be one of the top five world largest glove producers which will not only strengthen our financial performance but also increase competitive advantage as a fully integrated NR supply chain.

Investor Relations Department
Tel. +662 207 4500
Fax. +662 108 2244
Email. IR@sritranggroup.com