Sri Trang Agro-Industry Public Company Limited

Management Discussion and Analysis, 2Q21 I 10 August 2021

The World's Leading Fully Integrated Natural Rubber Company

Financial Result Overview

In 2Q21, we had THB 29,803.6 million in total revenue, growing 95.4% YoY but declining 5.6% QoQ. ***Revenue from NR products***, which accounted for 56.4% of total revenue, increased 63.4% YoY and 4.5% QoQ to THB 16,811.4 million, driven by the ASP that rose 25.7% YoY and 9.5% QoQ alongside prices of NR and other commodities on the global markets. Sales volume also increased 30.2% YoY to 311,657 tons but slightly declined 4.5% QoQ. This can be attributed to a drop in sales volume of LTX during the wintering season in Thailand, while sales volume for TRS and RSS continued to grow. **For 6M21, our production output accounted for 30% of Thailand's total production, up from 23% in 6M20.** Because of a pickup in NR demand and improved competitiveness, gross profit margin for NR products improved significantly to 12.1%.

Revenue from gloves accounted for 43.5% of total revenue and totaled THB 12,978.4, growing 162.0% YoY on the back of the ASP that increased 239.4% YoY. However, the revenue decreased 16.1% QoQ because sales volume was impacted by the temporary suspension of production at our Surat Thani and Trang plants because of COVID infections and the still persisting global container shortage and shipping congestion. Sales volume for gloves in 2Q21 totaled 5,723 million pieces, dropping 22.8% YoY and 15.1% QoQ, while the ASP slightly declined 1.2% QoQ. As a result, gross profit margin for gloves decreased to 68.7%, which still ranked among the highest in the industry.

We recorded a net profit of THB 5,043.7 million or THB 3.28 per share in 2Q21, with a gross profit margin of 36.7% and a net profit margin of 16.9%. Our Board of Directors has approved an interim dividend of THB 1.25 per share.

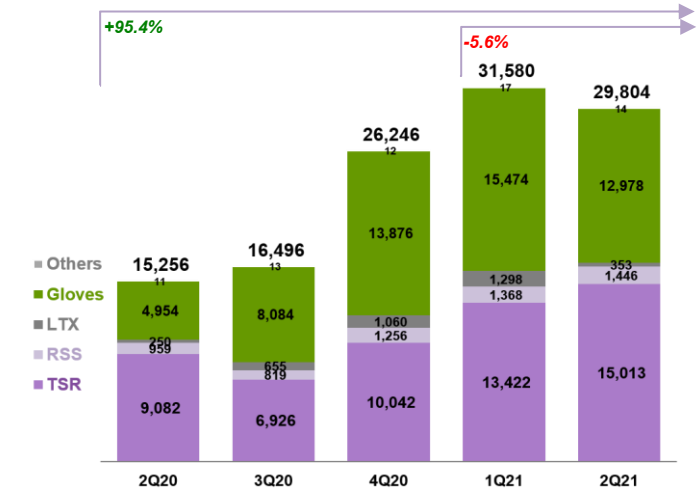
Key Financial Ratios

	2Q21	2Q20	1Q21	FY20
Gross profit margin	36.7%	16.2%	42.9%	28.9%
Adjusted gross profit margin*	35.4%	15.5%	43.0%	29.2%
EBITDA margin	33.9%	14.7%	38.2%	27.2%
Net profit margin	16.9%	7.2%	18.9%	12.6%
Current ratio (times)	2.38	1.62	1.93	1.77
Net D/E ratio (times)	0.17	0.22	0.18	0.25
Fixed asset turnover (times)	4.02	2.20	4.23	2.53
Inventory Turnover (days)	97.57	72.81	104.21	109.03
Collection Period (days)	26.64	24.66	29.17	31.71
Payment Period (days)	8.22	6.65	7.71	8.24

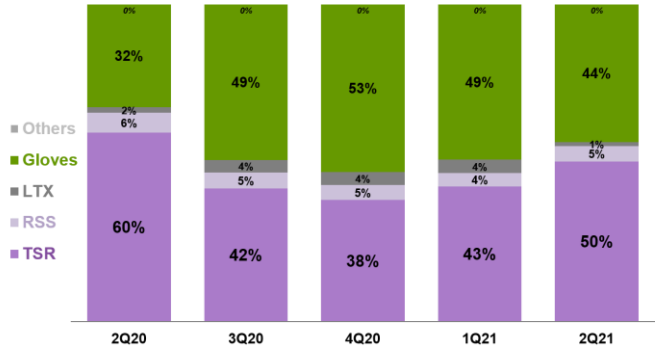
*Note: *Annualised*

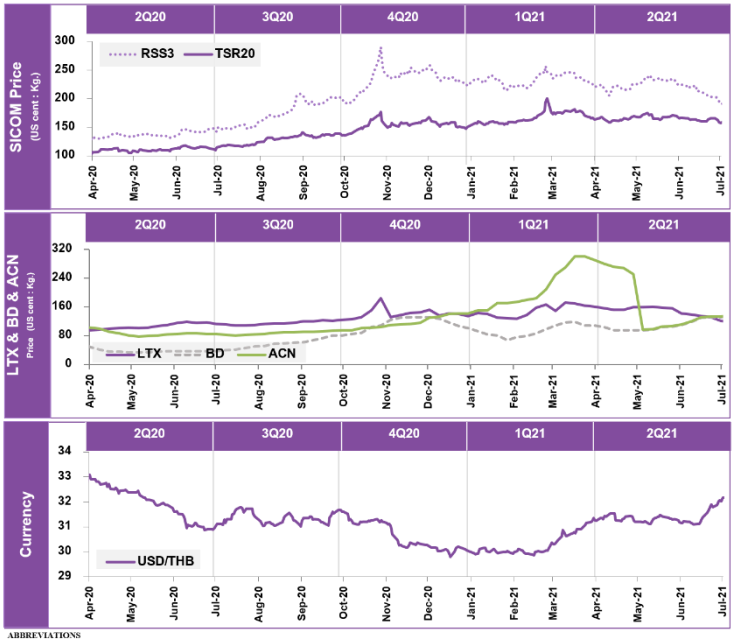
*** Adjusting for (reversal) allowance of inventory cost and realised items from hedging*

Revenues by Product (THB million)



Revenues Breakdown by Product





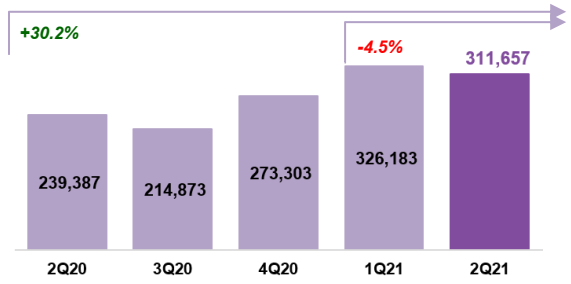
ABBREVIATIONS
RSS : Ribbed smoked sheet
TSR : Technically specified rubber, which includes STR and SIR
LTX: Concentrated Latex
BD: Butadiene
ACN: Acrylonitrile

Statements of Comprehensive Income

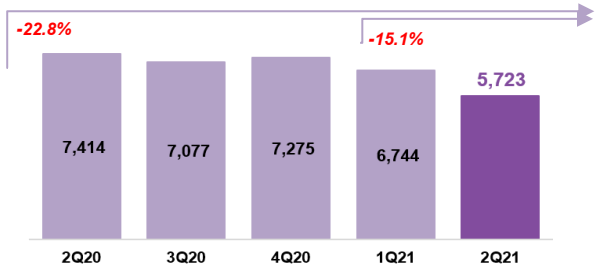
(Unit : THB million)	2Q21	2Q20	%YoY	1Q21	%QoQ	6M21	6M20	%YoY
Revenue from sales of goods and services	**29,803.6**	**15,256.1**	***95.4%***	**31,579.5**	***-5.6%***	**61,383.2**	**32,737.1**	***87.5%***
Cost of sales and services	(18,852.5)	(12,785.6)	*47.5%*	(18,027.2)	*4.6%*	(36,879.7)	(27,801.1)	*32.7%*
Gross profit (loss)	**10,951.1**	**2,470.4**	***343.3%***	**13,552.3**	***-19.2%***	**24,503.4**	**4,936.1**	***396.4%***
SG&A	(1,728.7)	(1,179.7)	*46.5%*	(1,635.7)	*5.7%*	(3,364.4)	(2,437.4)	*38.0%*
Other income and dividend income	95.3	41.2	*131.0%*	60.0	*58.9%*	155.2	71.2	*118.1%*
Gain on exchange rates	50.5	(31.2)	*N/A*	452.0	*-88.8%*	502.5	(24.2)	*N/A*
Other gain (loss)	(113.7)	225.2	*N/A*	(1,104.2)	*-89.7%*	(1,217.9)	88.9	*N/A*
Operating profit (loss)	**9,254.5**	**1,526.0**	***506.5%***	**11,324.4**	***-18.3%***	**20,578.9**	**2,634.5**	***681.1%***
Share of profit (loss) from investments in JV	73.0	22.4	*225.4%*	32.5	*124.6%*	105.5	121.9	*-13.5%*
EBITDA	**10,110.1**	**2,244.9**	***350.4%***	**12,059.3**	***-16.2%***	**22,169.4**	**4,115.5**	***438.7%***
EBIT	**9,327.5**	**1,548.4**	***502.4%***	**11,356.9**	***-17.9%***	**20,684.4**	**2,756.5**	***650.4%***
Finance costs	(210.3)	(173.6)	*21.1%*	(176.0)	*19.5%*	(386.3)	(378.3)	*2.1%*
Income tax (expense)	(950.6)	(85.2)	*1015.5%*	(831.9)	*14.3%*	(1,782.4)	(165.7)	*975.7%*
Net Profit (loss) for the periods	**8,196.4**	**1,295.8**	***532.5%***	**10,373.7**	***-21.0%***	**18,570.1**	**2,222.9**	***735.4%***
Attributed to owners of the parent	5,043.7	1,093.7	*361.2%*	5,958.5	*-15.4%*	11,002.2	1,947.9	*464.8%*
Attributed to non-controlling interests	3,152.7	202.1	*1460.0%*	4,415.2	*-28.6%*	7,567.8	275.1	*2651.1%*

Revenue from products and services in 2Q21 was THB 29,803.6 million, growing 95.4% YoY but declining 5.6% QoQ. *Revenue from NR products* accounted for 56.4% of total revenue and rose 63.4% YoY and 4.5% QoQ to THB 16,811.4 million. The YoY growth in revenue was driven by higher ASP and sales volume that resulted from a pickup in demand from tire manufacturers. The QoQ growth in revenue came on the back of the ASP that rose in tandem with NR prices on the global market. *Revenue from gloves* accounted for 43.5% of total revenue and rose 162.0% YoY on the back of the higher ASP but declined 16.1% QoQ because of a drop in sales volume. Revenue from other products and services came in at THB 13.7 million.

NR Sales Volume (Tons)



Glove Sales Volume (million pieces)



Sales volume for NR products in 2Q21 totaled 311,657 tons, growing 30.2% YoY across all geographic markets because of a pickup in demand. However, sales volume declined 4.5% QoQ because of a drop in sales volume of LTX. This was because 2Q21 coincided with the wintering season in Thailand and we had to ensure that STGT had sufficient supply of LTX during the period. At the same time, sales volume for TSR and RSS continued to grow. This was reflected in our utilization rate, which rose to 71% in 6M21 from 55% in 6M20. Geographically, China accounted for 51.5% of total sales volume, followed by other countries in Asia at 18.1% of total sales volume. Thailand made up 17.2% of total sales volume. Europe and the Americas constituted 6.6% and 6.2% of total sales volume, respectively.

Sales volume for gloves in 2Q21 declined 22.8% YoY and 15.1% QoQ to 5,723 million pieces. The drop can be attributed to the suspension of production for 8 days at our Surat Thani plant and for 19 days at our Trang plant because of COVID infections in late May and June as well as the global container shortage and shipping congestion that still persisted. Domestic sales volume rose 35.9% QoQ, reflecting a surge in demand following a new wave of infections. Utilization rate in 6M21 was 88%. The proportion of sales revenue between latex and nitrile gloves in 2Q21 was 54:46. Geographically, North America accounted for 43.8% of total sales revenue, followed by Asia at 25.6%. Europe contributed 12.5% of total sales revenue, while Latin America, Africa and the Middle East made up 11.6%, 3.7% and 2.4% of total sales revenue, respectively. Other regions accounted for 0.4% of total sales revenue.

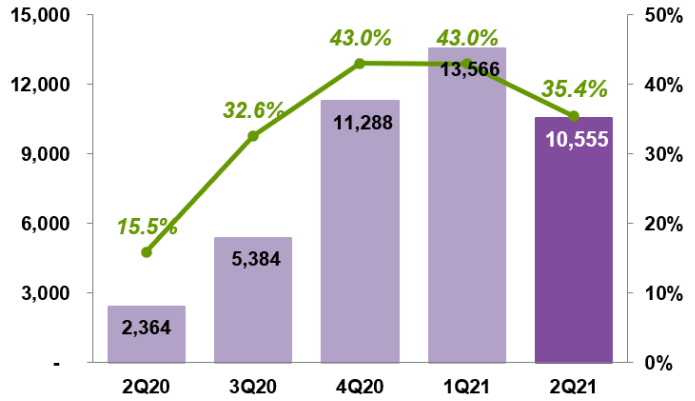
Revenue by Product (THB million)

	2Q21	2Q20	% YoY	1Q21	% QoQ
TSR*	**15,012.8**	**9,082.2**	***65.6%***	**13,422.3**	***12.1%***
%	*50.4%*	*59.5%*		*42.5%*	
Gloves	**12,978.4**	**4,953.5**	***162.0%***	**15,473.7**	***-16.1%***
%	*43.5%*	*32.5%*		*49.0%*	
RSS	**1,446.0**	**958.7**	***50.8%***	**1,368.4**	***5.7%***
%	*4.9%*	*6.3%*		*4.3%*	
LTX	**352.6**	**250.1**	***41.0%***	**1,297.9**	***-72.8%***
%	*1.2%*	*1.6%*		*4.1%*	
Other**	**13.7**	**11.5**	***19.9%***	**17.2**	***-20.0%***
%	*0.0%*	*0.1%*		*0.1%*	
Total	**29,803.6**	**15,256.1**	***95.4%***	**31,579.5**	***-5.6%***

*Note: *Revenue from TSR is net from hedge accounting.*
***Revenue from LTX between the Sritrang Group increased but this amount was deduct from the consolidated financial statement.*
***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 in 2Q21 was THB 10,951.1 million, growing 343.3% YoY but decreasing 19.2% QoQ. Our NR operations benefited from NR prices on the global markets that were higher YoY and QoQ and demand that continued its momentum from 1Q21. The less intense industry competition also created opportunities for us to strengthen our operations. This was reflected in the gross profit margin for NR products, which rose to 12.1% in 2Q21, from 9.2% in 2Q20 and 11.2% in 1Q21. Our glove business felt the impact from the temporary suspension of production because of COVID infections and the global container shortage and shipping congestion, which particularly affected sales to Europe and the US. Prices of NR and NBR latex also went up and this led our gross profit margin for gloves to decrease to 68.7% in 2Q21, from 75.9% in 1Q21. But it was still a marked improvement over 30.8% in 2Q20. The overall gross profit margin in 2Q21 was 36.7%, a substantial improvement over 16.2% in 2Q20 but lower than 42.9% in 1Q21. Taking account of the reversal of inventory allowance in the amount of THB 17.0 million and realized losses from NR hedging transactions of THB 412.8 million, our adjusted gross profit margin in 2Q21 would be 35.4%, up from 15.5% in 2Q20 but down from 43.0% in 1Q21.

Adjusted GP and GPM* (Unit: THB million)



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

Operating profit in 2Q21 was THB 9,254.5 million and operating profit margin was 31.1%, a substantial improvement over THB 1,526.0 million in 2Q20 but down from THB 11,324.4 million in 1Q21 because of decreased profitability of our glove business. We also recorded THB 50.5 million in currency exchange gains in the normal course of business. Losses from currency exchange and NR hedging transactions also came down to THB 113.7 million, from THB 1,104.2 million in 1Q21, as we quickly adapted our hedging strategy following the depreciation of THB against USD. SG&A came in at THB 1,728.7 million, increasing 46.5% YoY and 5.7% QoQ, largely from substantially higher freight costs. Administrative expenses also rose in tandem with the expansion of our glove business and because of depreciation from the temporary suspension of production in late May and June, as well as from fees and expenses related to the listing on the SGX of STGT. We recorded THB 95.3 million in other income, which largely consisted of THB 35.8 million in partial insurance proceeds for the fire incident at our Huay Nang plant. At the end of 2Q21, we had THB 839.1 million in gains from the net realizable value of our inventory*.

*Note: *Inventory of TSR, RSS and LTX is stated at lower of cost or net realizable value. Under the Thai Financial Reporting Standards, inventory gains or losses cannot be recognized until the time of actual sale. The value of inventory varies over time, until it is stated at the actual selling price at the time of sale.*

Share of profits from associates and joint ventures in 2Q21 was THB 73.0 million, growing 225.4% YoY and 124.6% QoQ on the back increased profits of both of our NR and hydraulic hoses joint-ventures as demand was robust and the ASP was higher. The depreciation of THB against USD also contributed to the increase in profits.

Net profit in 2Q21 was THB 5,043.7 million, growing 361.2% YoY from THB 1,093.7 million in 2Q20 but decreasing 15.4% QoQ from THB 5,958.5 million in 1Q21. Net profit margin was 16.9%. Even though our glove business felt the impact of the temporary suspension of production and the global container shortage, our NR operations saw robust growth as NR prices on the global markets were in the high range and demand continued to be strong. Because of the strength and credibility of our operations, for 6M21, our production output accounted for 30% of Thailand's total NR production, up from 23% in 6M20. With our TSR plants in Thailand having the utilization rate of 74% in 6M21, we have decided to expand our production capacity for TSR through the installation of additional machinery at our existing plants in Bungkarn, Pitsanulok and Sakonnakorn, a project that will require about the THB 1,150 million in CAPEX. Finance costs in 2Q21 came in at THB 210.3 million, increasing 21.1% YoY and 19.5% QoQ because of higher interest rates, especially in Indonesia. But our effective interest rate was still 2.5%, markedly lower than the market rate.

Additionally, in 2Q21, Sri Trang Group has secured Sinopharm vaccines for all employees of all levels and nationalities in order to alleviate the burden on Thailand's medical system and contribute in an effort to develop herd immunity and to inspire confidence among employees, customers, suppliers, business partners, investors and all stakeholders throughout the supply chain as part of our commitment to fight against COVID-19.

Business Segmentation Analysis



Technically Specified Rubber (TSR)

Revenue from TSR accounted for 50.5% of total revenue and rose 65.6% YoY and 12.1% QoQ.

The YoY and QoQ growth in revenue was driven by the ASP that increased 23.2% YoY and 8.4% QoQ alongside prices of NR and other commodities on the global markets. Sales volume also rose 34.4% YoY and 3.3% QoQ as a result of a pickup in demand from tire manufacturers.

Our ASP for TSR was higher than the SICOM average of 165.3 cent/kg and there has been less competition in the industry than in recent years as many peers have faced liquidity problem and lacked resourced to purchase raw materials (midstream processors have to use cash to purchase raw materials from rubber farmers, thereby necessitating a higher proportion of short-term borrowings), and this served to strengthen our operations and credibility. Our gross profit margin was higher than in 2Q20 and 1Q21 as a result.



Gloves

Revenue from gloves accounted for 43.5% of total revenue and rose 162.0% YoY but decreased 16.1% QoQ.

The YoY growth in revenue was driven by the ASP that increased 239.4% while sales volume declined 22.8%.

The QoQ decrease in revenue resulted from sales volume that dropped 15.1% as a result of the temporary production suspension at our Surat Thani and Trang plants because of COVID-19 infections and the persisting global container shortage and shipping congestion. The ASP also slightly declined by 1.2%, while prices of NR and NBR latex increased YoY and QoQ.

As a result, gross profit margin for gloves was lower than in 1Q21 but was substantially higher than in 2Q20.



Ribbed Smoked Sheet (RSS)

Revenue from RSS accounted for 4.9% of total revenue and grew 50.8% YoY and 5.7% QoQ.

The YoY and QoQ growth in revenue resulted from the ASP that rose 50.1% YoY and 1.6% QoQ in tandem with NR prices on the global markets. Our ASP for RSS was higher than the SICOM average of 221.8 cent/kg. Sales volume also went up 0.5% YoY and 4.0% QoQ because of a pickup in demand. However, raw material costs for RSS were still high as many rubber farmers have chosen to producing field latex instead of unsmoked sheets.

Gross profit margin for RSS was slightly down from 1Q21 but was substantially higher than in 2Q20.



Concentrated Latex (LTX)

Revenue from LTX accounted for 1.2% of total revenue and rose 41.0% YoY but declined 72.8% QoQ.

The YoY growth in revenue was driven by the ASP that went up 52.7%. Sales volume, meanwhile, slightly decreased by 7.7% as we had to supply LTX to STGT to ensure sufficiency during the wintering season (a period from late February to late May) and transactions between STA and STGT are deemed connected transactions and are not stated in the financial statements.

The QoQ drop in revenue resulted from sales volume that declined by 76.4% for the same reason despite the ASP that increased 15.1%.

Gross profit margin for LTX was slightly lower than in 1Q21 but was a substantial improvement over 2Q20.

Natural Rubber Industry Outlook

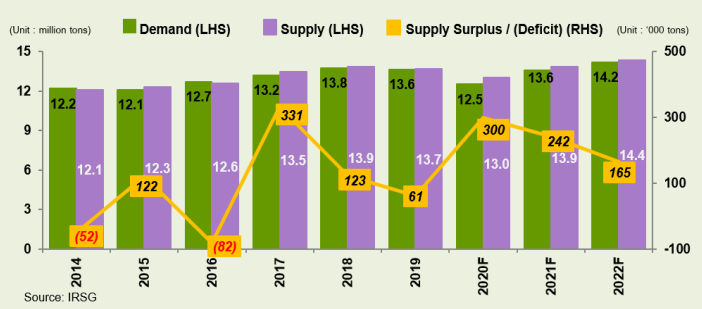
In 2Q21, NR prices continued to move in the same high range as in 1Q21, buoyed by the global economic recovery and an uptrend in commodity prices. The average price of TSR20 on SICOM in 2Q21 was 165.3 cent/kg, slightly down by 1.0% QoQ but increasing 49.3% YoY. According to the IRSG*, NR demand from India, the USA and Europe increased significantly from last year as the tire industry has recovered. However, during June 2021, the lockdown and the suspension of production among glove producers in Malaysia and gloves producers and elastic producers in Thailand because of COVID infections had an impact on demand for LTX.

On the supply side, 2Q21 partially coincided with the wintering season in Thailand (from March until mid-May) and with rainfall in the normal range, there was no shortage of NR supply. There was, however, a labor shortage because of the lockdown. 2Q21 also coincided with the harvest season in Indonesia, but the NR supply from Indonesia was less than expected because of a variety of factors, including the lack of rubber tree maintenance, the fungal disease, and the lockdown that precluded rubber farmers from being able to tap as usual.

In 3Q21, aside from the above factors, the weather condition is another factor that will affect NR supply. While rubber trees will yield good supply with enough rainfall but excessive rainfall would prevent rubber farmers from tapping the trees. The NR stock at the Shanghai Futures Exchange (SHFE), which at the end of June 2021 was at 184,000 tons, a slight increase from 176,000 tons at the end of March 2021, but 56,000 tons lower than 242,000 tons at the end of June 2020.

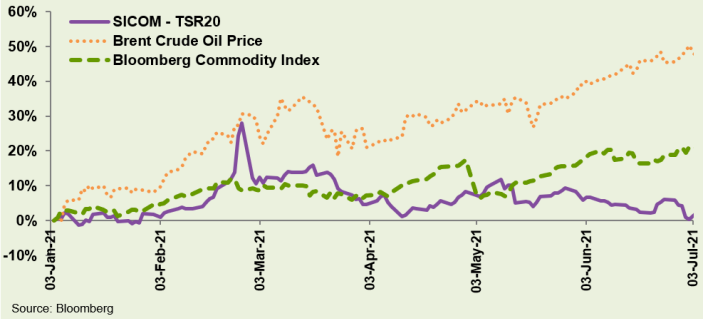
**Source: Monthly Bulletin Report, July 2021 และ Rubber Industry Report, Volume 20, No.7-9, January – March 2021*

Demand and Supply of NR



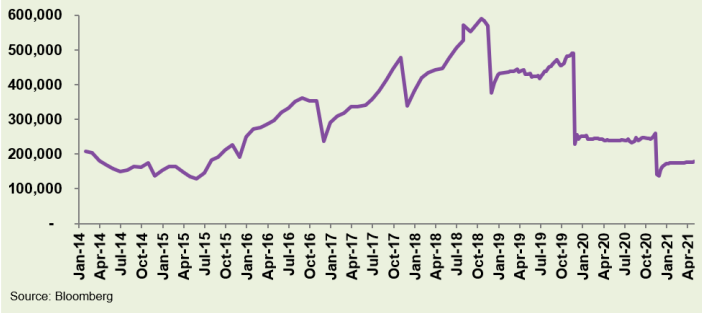
Source: IRSG

Commodities Price Movement



Source: Bloomberg

NR Stocks at SHFE, China (tons)



Source: Bloomberg

Progress of Our Business Growth Plan throughout the Supply Chain

Upstream Business – approximately 7,200 hectares of rubber plantations and other economic crops

As of 30 June 2021, we had approximately 7,200 hectares of rubber plantations and other economic crops in 19 provinces of Thailand, with the majority located in the north and northeast. We estimate that in 2021, the rubber trees that can be tapped will account for around 49% of total rubber trees, up from 25% in 2020.

We have received Forest Management Certification and Chain-of-Custody Certification from the Forest Stewardship Council (FSC), making us **the world's first fully integrated NR producer to be recognized by the FSC throughout the supply chain.**

For the hemp business, earlier in August, Sri Trang Rubber and Plantations (SRP), a subsidiary of STA, has applied to Lampang Provincial Public Health Office for a permit to grow hemp and sell hemp seeds, leaves and roots to a customer with whom we have agreed on a partnership.



Midstream Business – maintaining profitability and moving toward "STA 20"

As of 30 June 2021, our 34 NR processing plants (30 in Thailand, 3 in Indonesia, and 1 in Myanmar) provided **2.81 million tons per annum in installed production capacity.** In 2021, STA has decided to expand our production capacity for TSR by adding 180,000 tons through the installation of additional machinery at our existing plants in Bungkarn, Pitsanulok and Sakonnakorn, a project that will require about the THB 1,150 million in CAPEX. And the expansion of LTX capacity by adding 104,000 tons through setting up new plants in Bungkarn and Narathiwas as well as adding new machinery in our existing Suratthani plant. This will drive **STA's installed production capacity to achieve at 3.22 million tons per annum**

We plan to introduce more automation to our production process in order to improve efficiency, reduce energy consumption and become more environmentally friendly. We have launched the application **"SRITRANG FRIENDS"** to facilitate raw material procurement in Thailand and to reduce operation costs as well.



Downstream Business – reaching an annual installed production capacity of 50 billion pieces by 2022 and 80 billion pieces by 2024

Sri Trang Gloves (Thailand) Public Company Limited ("STGT"), one of Sri Trang Group's flagship companies, in which STA has 56.2% in direct and indirect shareholding, engages in the production and distribution of latex and nitrile examination and industrial gloves to customers in over 140 countries around the world. STGT has offices in Thailand, China and the US. With **an annual installed production capacity of 35.0 billion pieces as of 30 June 2021,** STGT is Thailand's largest glove producer and is ranked among the world's leading producers. In 2020, STGT had a market share of 8% of global glove consumption.

STGT is committed to achieving an annual production capacity of 50 billion pieces by 2022 and 80 billion pieces by 2024, with details of the expansion as follows:

Project	*Commercial Run*	*Installed Capacity (mill.pcs.)*
I. Surat Thani (SR2)	2Q21	2,177
II. Surat Thani (SR3)	2Q21	3,992
III. Sadao, Songhhla (Sadao)	3Q21	2,903
IV. Trang (TG3)	4Q21	7,258

At the end of 2021, STGT will have 36 billion pieces in annual installed production capacity.

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