

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

Financial Result Overview

In 2018, the Natural Rubber (NR) industry still had to contend with an oversupply that stemmed from the planting of rubber trees during a period of high NR prices from 2010 to 2012 and the rubber trees planted during this period started to provide yield from 2017 onwards. The oversupply and consistently low NR prices prompted the governments of the three major NR-producing countries, namely Thailand, Indonesia and Malaysia, whose NR production together accounted for approximately 67% of global NR production, to agree to the Agreed Export Tonnage Scheme (AETS) to impose a quota of 350,000 tons of NR export during 1Q18. The government of Thailand also came up with various measures to shore up NR prices and promote domestic NR consumption. However, the global economic and political uncertainties, the volatility of currencies in the ASEAN region following the interest rate increase by the US Federal Reserve, and the escalating trade war between the US and China continued to weigh on market sentiments and led NR prices to extend their decline in 2018. The average price of TSR20 on SICOM for 2018 was 136.5 cent/kg, down 17.1% from 2017.

In 2018, we implemented the selective selling strategy, which focused on profitability and effective raw material cost management, in our NR processing operations in the midstream. As a result, we were able to maintain our market share at 10% of global NR consumption with 1,336,649 tons in sales volume. As for our glove production operations in the downstream, we expanded our production capacity to keep up with the growing global demand for gloves. We are currently the largest glove producer in Thailand and is ranked among the world's leading glove producers with 16,937 million pieces in sales volume, a figure that represents 6% of global glove consumption.

Our revenue in 2018 was Baht 73,732.3 million, down 18.1% from the previous year as a result of lower NR prices. Nevertheless, we managed to record Baht 2,064.4 million in net profit thanks to our position as a fully integrated natural rubber company.

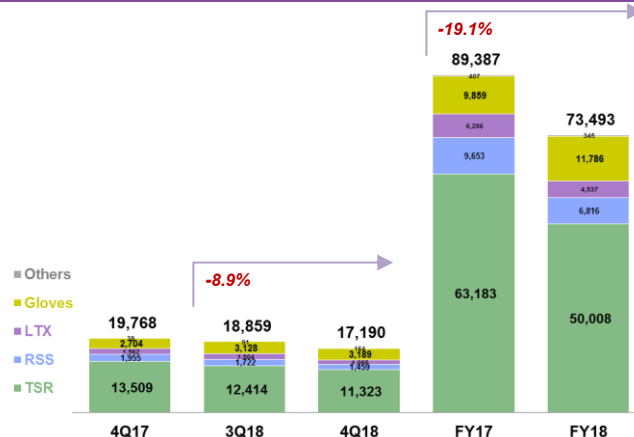
Key Financial Ratios

	FY18	FY17
Gross profit margin	9.7%	4.2%
Adjusted gross profit margin**	11.2%	5.4%
EBITDA margin	7.7%	1.8%
Net profit margin	2.8%	-1.6%
Current ratio (times)	1.15	1.10
Net D/E ratio (times)	1.05	1.47
Fixed asset turnover (times)*	2.80	4.12
Inventory Turnover (days)*	79.81	80.01
Collection Period (days)*	28.11	28.27
Payment Period (days)*	7.54	6.33

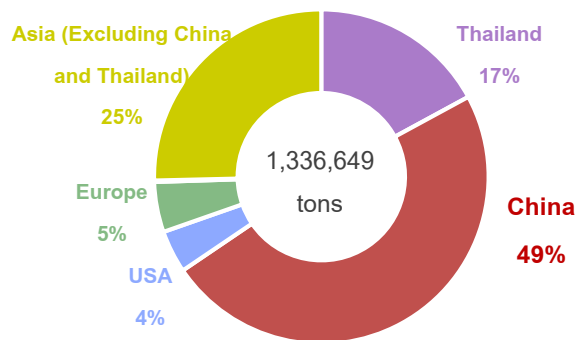
Note: *Annualised

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

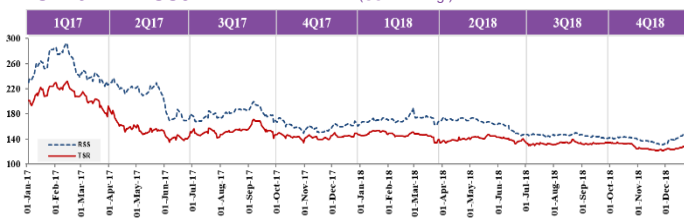
Revenues by Product (THB million)



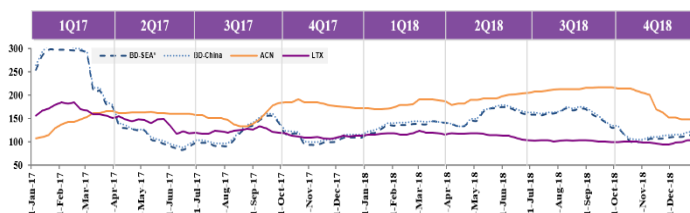
NR Sales Volume by Country (FY18)



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



Butadiene (BD), Acrylonitrile (ACN) and Concentrated Latex (LTX) (US cent : Kg.)



Exchange Rate of Thai Baht against US Dollar



Statements of Comprehensive Income

(Unit : THB million)	FY18	FY17	%YoY	4Q18	4Q17	%YoY
Revenue from sales of goods and services	73,492.8	89,387.0	-17.8%	17,189.6	19,768.4	-13.0%
Cost of sales and services	(66,385.3)	(85,610.6)	-22.5%	(15,822.9)	(18,393.8)	-14.0%
Gross profit (loss)	7,107.5	3,776.4	88.2%	1,366.7	1,374.5	-0.6%
SG&A	(5,247.9)	(5,859.1)	-10.4%	(1,350.5)	(1,332.6)	1.3%
Other income	237.7	685.5	-65.3%	67.2	398.0	-83.1%
Gains (loss) on exchange rate, net	(252.2)	522.1	N/A	40.3	157.4	-74.4%
Other gains, net	1,203.3	147.4	716.3%	156.0	112.4	38.9%
Operating profit (loss)	3,050.2	371.6	720.8%	279.8	709.7	-60.6%
Share of profit (loss) from investments in JV	223.7	129.8	72.3%	26.5	46.6	-43.1%
EBITDA	5,657.4	1,610.7	251.2%	993.5	1,325.1	-25.0%
EBIT	3,273.9	(241.7)	N/A	306.3	756.2	-59.5%
Finance costs (net)	(887.0)	(1,156.4)	-23.3%	(211.2)	(274.7)	-23.1%
Income tax (expense)	(241.0)	(20.6)	1068.1%	55.9	25.5	119.6%
Net Profit (loss) for the periods	2,146.0	(1,418.5)	N/A	151.1	507.0	-70.2%
Attributed to Owners of the parent	2,064.4	(1,437.1)	N/A	139.1	468.5	-70.3%
Attributed to non-controlling interests	81.6	18.5	340.9%	12.0	38.5	-68.8%

Total revenue from products and services in 2018 was Baht 73,492.8 million, down 17.8% from 2017. Revenue from NR products was down 22.4% to Baht 61,361.2 million because of the average selling price that dropped 23.2% in tandem with NR prices on the global market, while sales volume slightly grew by 1.0%. Revenue from gloves was Baht 11,786.3 million, up 19.6% from 2017 on the back of a 12.4% growth in sales volume following the capacity expansion and marketing efforts in previously untapped markets and a 6.4% increase in average selling price because prices of synthetic rubber, the primary raw material in nitrile glove production, went up in tandem with oil prices on the global markets*, even though prices of LTX, the primary raw material in latex glove production, declined. Revenue from other products and services came in at Baht 354.3 million.

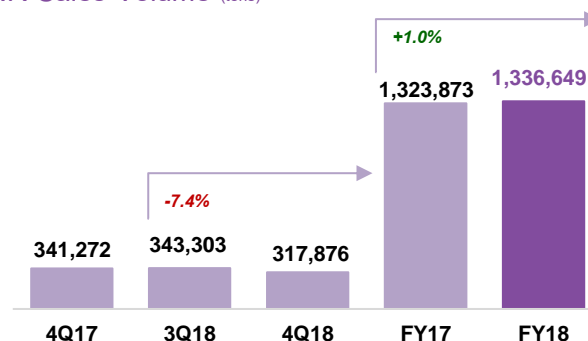
*Note: *Because synthetic rubber is derived from crude oil, prices of synthetic rubber tend to move in the same direction as oil prices.*

Sales volume for NR in 2018 was 1,336,649 tons, up 1.0% from 2017, despite the imposition of the Agreed Export Tonnage Scheme (AETS) during 1Q18 and the escalating trade war between the US and China that went on throughout the year. We were also able to maintain our market share at 10% of global NR consumption. Sales volume for TSR rose 2.5% on the back of increased orders from customers in China, Europe, India and Vietnam. Sales volume for RSS was down 3.3% due to softening demand. Sales volume for LTX dropped 5.8% because the raw material costs that went up meant that we had to preserve our profit margin at the expense of sales volume. China still remained our largest market for NR products at 48.4% of our total sales volume, followed by the other markets in Asia at 25.4%, while Europe and the US markets accounted for 4.9% and 4.1% of total sales volume, respectively. Sales volume for the domestic market accounted for 17.1% of our total sales volume.

Sales volume for gloves in 2018 was 16,937 million pieces, up 12.4%* from 2017. Our market share in 2018 was 6% of global glove consumption. The growth in sales volume can be attributed to higher sales volume for latex gloves because our vertically integrated business model afforded us a competitive advantage in latex glove production and enabled us to expand our customer base to previously untapped markets like India, South Africa and South America. Latex gloves accounted for 61% of our production volume while nitrile accounted for 39%. The US remained our largest market for gloves with 26.7% of total sales volume, followed by Europe market at 23.8%. Sales volume for the domestic market accounted for 11.5% of total sales volume. Japan, China and India markets accounted for 8.9%, 8.0% and 4.1% of total sales volume, respectively.

**STGT, previously a joint venture, became our subsidiary in March 2017. Therefore, revenue from gloves in 2017 only took account of the revenue on the consolidated financial statements after 15 March 2017. Had revenue from gloves for the whole of 2017 been taken into account, our sales volume for gloves in 2018 would have been 3.6% higher than in 2017.*

NR Sales Volume (tons)



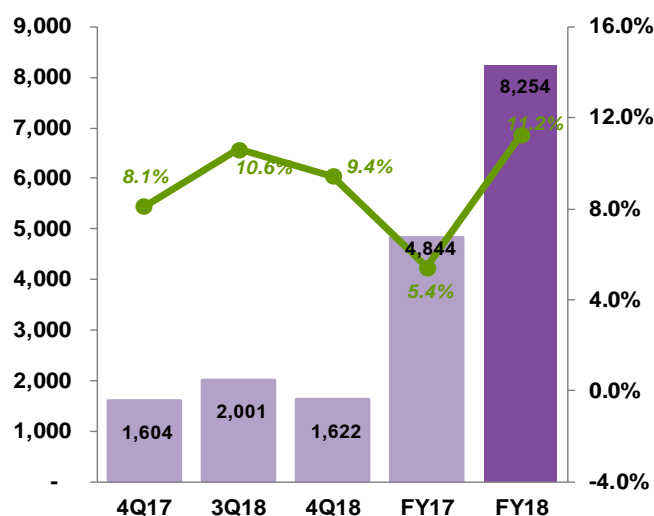
Revenue by Product (THB million)

	FY18	FY17	% YoY	4Q18	4Q17	% YoY
TSR	50,008.1	63,183.1	-20.9%	11,323.4	13,508.8	-16.2%
%	68.0%	70.7%		65.9%	68.3%	
Gloves	11,786.3	9,858.7	19.6%	3,188.5	2,703.7	17.9%
%	16.0%	11.0%		18.5%	13.7%	
RSS	6,816.0	9,653.1	-29.4%	1,459.2	1,955.2	-25.4%
%	9.3%	10.8%		8.5%	9.9%	
LTX	4,537.1	6,285.5	-27.8%	1,054.6	1,561.5	-32.5%
%	6.2%	7.0%		6.1%	7.9%	
Other*	345.3	406.6	-15.1%	164.0	39.1	319.1%
%	0.5%	0.5%		1.0%	0.2%	
Total	73,492.8	89,387.0	-17.8%	17,189.6	19,768.4	-13.0%

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 in 2018 was Baht 7,107.5 million, increasing 88.2% from Baht 3,776.4 million in 2017, as a result of a change in strategy with regard to NR products and effective raw material cost management. The demerger of our glove operations in 2017 also resulted in a change in marketing strategy and customer base. However, in 2018 we expanded our customer base to countries all over the world and implemented production cost management strategies, which led to improved profitability. Gross profit margin in 2018 was 9.7%, up from 4.2% in 2017. Taking account of the reversal of inventory allowance in the amount of Baht 172.3 million and realized gains from hedging transactions in the amount of Baht 90.0 million, our adjusted gross profit margin in 2018 would have been 11.2%, up from 5.4% in 2017.

Adjusted GP and GPM* (Unit : THB million)



Note:

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

Operating profit in 2018 was Baht 3,050.2 million and operating profit margin was 4.2%, an improvement over operating loss of Baht 371.6 million in 2017. The reversal can be attributed to the effective raw material cost management in our NR operations and the improved profitability of our glove operations. Thanks to

lower volatility of NR prices, we also recorded Baht 1,202.8 million in gains from hedging transactions 2018, up from Baht 100.3 million in 2017. We recorded Baht 252.2 million in loss on currency exchange, compared with Baht 522.1 million in gains on currency exchange in 2017. However, we also recorded Baht 90.0 million in realized gains from currency exchange.

Administrative and selling expenses dropped by Baht 611.2 million or 10.4% from 2017 because in 2017 there were non-recurring expenses in relation to the demerger and legal expenses in the amount of Baht 539 million. Had such expenses not been taken into account, our administrative expenses in 2018 would have been down by Baht 137.6 million or 7.4%. Selling expenses increased Baht 65.4 million or 1.9% as a result of Cess expense that went up in tandem with higher export volume and shipping costs that went up in tandem with oil prices on the global markets. Other income in 2018, consisting of income from insurance reimbursement, rent, and the provision of computer services, came in at Baht 237.7 million.

Share of profits from investments in associates and joint ventures in 2018 was Baht 223.7 million, up Baht 93.9 million or 72.3% from 2017 on the strength of a 12.4% growth in profit from the high-pressure hydraulic hose joint venture and the NR joint venture that returned to profit after recording a loss in 2017.

Net profit in 2018 was Baht 2,064.4 million, a reversal of Baht 1,437.1 million in net loss in 2017. The return to profit was driven by our selective selling strategy and effective raw material cost management in our NR operations, which led to improved profitability. We also fully recognized revenue from our glove operations in 2018, in comparison with 2017 when the demerger was completed on 16 March 2018. Profit before interest and taxes (EBIT) in 2018 was Baht 3,273.9 million, compared with a loss of Baht 241.5 million in 2017. Finance costs went down Baht 269.4 million or 23.4% because of a decrease in short-term borrowings as a result of lower NR prices. However, tax expenses were Baht 220.4 million higher as a result of an increase in net profit.

As of 31 December 2018, inventory balance of the Company at net realisable value (NRV), for only RSS, LTX, and TSR, had Baht 209.3 million surplus from inventories at lower of cost or net realisable value (NRV). Under Thai Financial Reporting Standards, such surplus from inventories are not allowed to be recognized in the profit and loss until the inventories are actually sold. The amount of such difference changes over time depending on the actual price at the time of sale.



Business Segmentation Analysis



Technically Specified Rubber (TSR)

Revenue from TSR, which accounted for 68.0% of total revenue, dropped 20.9% from 2017 as a result of the average selling price that went down 21.2% alongside NR prices on the global markets, while sales volume slightly grew by 2.5% on the back of growth in China, India and Europe. Thanks to our selective selling strategy and effective raw material cost management, gross profit for TSR in 2018 rose 159.5% from 2017 and gross profit margin also went up considerably.



Gloves

Revenue from gloves, which accounted for 16.0% of total revenue, rose 19.6% from 2017 on the back of a growth in both sales volume and average selling price. Sales volume went up 12.4%* on the back of increased demand from South America, India, China, Korea and Thailand. The average selling price went up 6.4% because prices of synthetic rubber, the primary raw material in nitrile glove production, moved higher alongside oil prices on the global market, even though prices of concentrated latex, the primary raw material in latex glove production, went down.

Thanks to our vertically integrated business model, gross profit for gloves in 2018 rose by 86.3% from 2017 and gross profit margin was comparable with those of the world's leading glove producers.

**STGT, previously a joint venture, became our subsidiary in March 2017. Therefore, revenue from gloves in 2017 only took account of the revenue on the consolidated financial statements after 15 March 2017. Had revenue from gloves for the whole of 2017 been taken into account, our sales volume for gloves in 2018 would have been 3.6% higher than in 2017.*



Ribbed Smoked Sheet (RSS)

Revenue from RSS, which accounted for 9.3% of total revenue, dropped 29.4% from 2017 as a result of a 27.0% decline in average selling price, which fell in tandem with NR prices on the global markets, and sales volume that also went down 3.3% due to a decrease in export volume. Because of the decline in both average selling price and sales volume, gross profit for RSS in 2018 was down 16.0% from 2017. But gross profit margin went up thanks to improved management of selling and raw material costs.



Concentrated Latex (LTX)

Revenue from LTX, which accounted for 6.2% of total revenue, dropped 27.8% from 2017 as a result of a 23.4% decline in average selling price and a 5.8% drop in sales volume. In 2018, we implemented our selective selling strategy and cost management and chose to maintain profitability at the expense of sales volume. Therefore, even though gross profit dropped by 13.9% alongside the average selling price and sales volume, our gross profit margin actually improved when compared with 2017.



Industry Outlook

Unit : 000'tons	2017	2018	2019F
NR Production	13,559	13,901	14,262
% change	7.6%	2.5%	2.6%
NR Consumption	13,218	13,867	14,231
% change	4.3%	4.9%	2.6%
NR Balance	341	34	31

Source : International Rubber Study Group (IRSG).

The World Rubber Industry Outlook, Review and Prospects to 2027, December 2018

The growth of the global economy is the key factor affecting NR demand. Because tire manufacturers account for 71% of global NR demand, the growth in vehicle production and tire manufacturing directly has an effect on NR demand growth. According to IRSG report, in 2018, demand from tire manufacturers increased 4.9% on the back of growth in the replacement market. At the same time, NR demand from other sectors grew by 5.2%, mainly on account of demand from the glove industry. In 2018, demand for synthetic rubber, which can be used in place of natural rubber in the production of some products, grew by only 1.7%, a much lower rate than NR growth, as low NR prices prompted tire manufacturers in some countries as well as consumers in other industries to increase the share of NR in production.

NR demand is expected to be flat in 2019, increasing only slightly by 2.6% from 2018, due to the economic slowdown in China, the world's largest NR consumer, despite an expected moderate growth in vehicle production and tire manufacturing globally. At the same time, NR demand from other industries is expected to grow by 4.4%. Movements of NR prices on the global markets are also influenced by such other factors as speculative activities on the futures markets, including SICOM, TOCOM and the Shanghai Futures (SHFE), which may cause NR prices to not move in the same direction as the fundamentals, as well as the weather conditions.



NR Demand & Supply Balance

According to IRSG report, global NR demand is projected to increase by 2.6% to 14,231,000 tons in 2019, with China remaining the world's largest consumer, followed by the European countries, India, the US and Thailand. But the growth in demand from India and Malaysia is expected to be higher than the overall growth rate, driven by increased consumption by the tire manufacturers and glove producers respectively. Meanwhile, the IRSG forecasted that global NR supply will increase by 2.6% to 14,262,000 tons in 2019, driven by supply from the CAMAL* countries. Supply from Thailand and Indonesia, the world's largest and second-largest NR-producing countries, is expected to be flat as replacement planting has remained steady while new planting has been steadily declining as a result of consistently low NR prices.

In 2019, NR supply from newly mature rubber trees is expected to grow at a slower rate as there has been less planting since 2013, when NR prices started to drop to lower levels. Moreover, the prolonged period of low NR prices has prompted rubber farmers to switch to more profitable crops, delay planting or replacement planting, and reduce the tapping frequency. The extended period of low NR prices has also dampened farmer interest in the rubber industry. Meanwhile, NR demand is still growing in tandem with the tire industry. The IRSG anticipates that NR supply surplus will hover around 31,000 tons in 2019, slightly down from 34,000 tons in 2018.

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



Progress of Our Business Growth Plan throughout the Supply Chain



Upstream Business – approximately 50,000 rai of rubber plantations

As of 30 September 2018, we owned approximately 50,000 rai of rubber plantations in 19 provinces of Thailand, with the majority in the North and Northeast. 89% of the plantations have been planted with rubber trees and some portions have been providing yields since 2015. The Company estimate that, in 2018, rubber trees that are ready to be tapped would account for 3% of total rubber trees, a development that would benefit our core business in the midstream.

Midstream Business – moving toward “STA 20”

Since 3Q17, we have implemented a *selective selling strategy*, which prioritizes profitability over sales volume, to preserve profit margin during a period of low NR prices. In the long run, we are focused on maintaining relationships with our existing customers in addition to cultivating new ones, such as tire manufactures from overseas who have set up production base in Thailand and consumers of concentrated latex worldwide, with an eye toward achieving “STA 20”, that is, to capture a market share of 20% of “*global NR consumption*” (In 2017, our market share was 10% of global NR consumption.).

Sri Trang Group had a total 36 production facilities, of which 32 are located in Thailand, three in Indonesia, and one in Myanmar. Our engineering capacity stood at 2.86** million tons per annum, up 240,000 tons from 2017, at the end of 2018. The additional capacity came from the two production facilities in Chiang Rai and Sakonnakorn that were constructed last year and became fully operational, and also from the addition of production lines at our latex processing plants in Surat Thani, Songkhla, and Ubon Ratchathani to support the growth of our glove business and to keep pace with steadily growing demand for concentrated latex. As a result of this, our engineering capacity remains the highest in the industry.

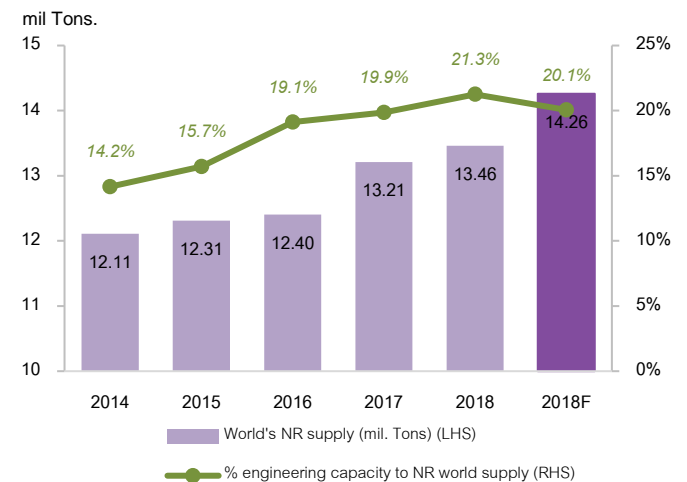
Downstream Business – aiming to be among the world’s top three examination and industrial glove producers

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

As of 30 September 2018, we achieved our capacity expansion target for 2018 of 17.2 billion pieces of gloves per annum, up 3.2 billion pieces or 23% from our production capacity at the end of 2017. We are also in the process of amalgamating the businesses Sri Trang Gloves (Thailand) Ltd. (“STGT”) and Thaikong Co., Ltd. (“TK”), which is a glove producer based in Trang with 4 billion pieces of gloves per annum in production capacity. The amalgamation is expected to be completed by 1 April 2019 and will increase our total production capacity to 21 billion pieces of gloves per annum. We intend to keep expanding our production capacity to keep pace with the global demand for gloves, which is growing 8-10% annually*. Our eventual target is to rank among the world’s top three glove producers in the foreseeable future.

Source: *MARGMA Industry Brief 2018 on the Rubber Glove Industry

Proportion of Sri Trang Group Capacity to NR Global Supply



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