

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

Financial Result Overview

In 1Q19, natural rubber (NR) prices, which started to move higher in December 2018, continued their upward trajectory. The average price of TSR 20 in 1Q19 was 139.4 cent/kg, up 10% from 4Q18. The quick increase in NR prices during 1Q19 led most NR consumers to delay purchasing. As a result, our sales volume for NR products in 1Q19 fell 9.9% YoY and 8.8% QoQ to 289,984 tons, which led our total revenue to drop 13.8% YoY and 11.3% QoQ to Baht 15,248.0 million. On the other hand, sales volume for our latex and nitrile gloves continued to experience robust growth, moving up by 26.2% YoY and 2.4% QoQ, on the strength of increased demand from the emerging markets and higher market share in the developed markets.

The change in movements of NR prices and the raw material costs in Thailand and Indonesia that moved higher than NR prices on the global markets, coupled with the sudden appreciation of Thai Baht against US Dollar and losses from hedging transactions, had a short-term effect on our profitability and led us to record a net loss of Baht 627.7 million. However, we had a surplus from the net realizable value of inventory in the amount of Baht 842.6 million, which cannot be recorded in the profit and loss statement under the Thai Financial Reporting Standards. Had such surplus been recognized, we would have a net profit of 214.9 million in 1Q19.

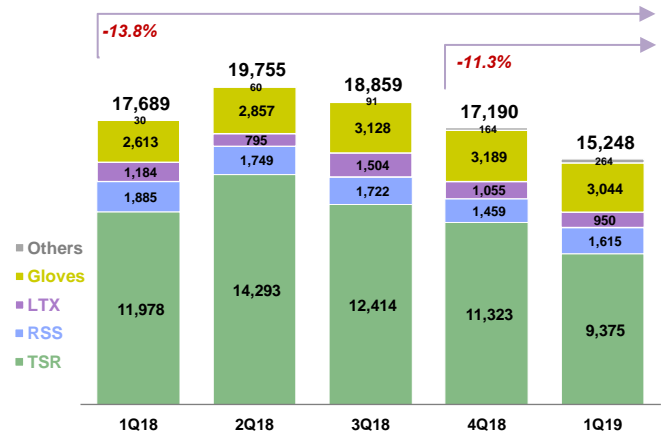
Key Financial Ratios

	1Q19	FY18	FY17
Gross profit margin	6.6%	9.7%	4.2%
Adjusted gross profit margin**	3.8%	11.2%	5.4%
EBITDA margin	1.1%	7.7%	1.8%
Net profit margin	-4.1%	2.8%	-1.6%
Current ratio (times)	1.09	1.15	1.10
Net D/E ratio (times)	1.12	1.05	1.47
Fixed asset turnover (times)*	2.30	2.80	4.12
Inventory Turnover (days)*	77.90	79.81	80.01
Collection Period (days)*	29.69	28.11	28.27
Payment Period (days)*	8.34	7.54	6.33

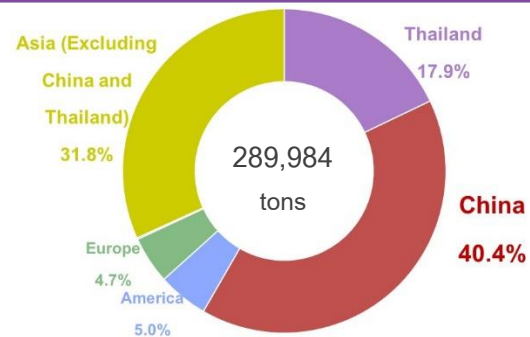
Note: \*Annualised

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

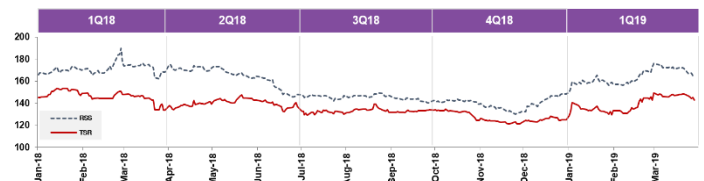
Revenues by Product (THB million)



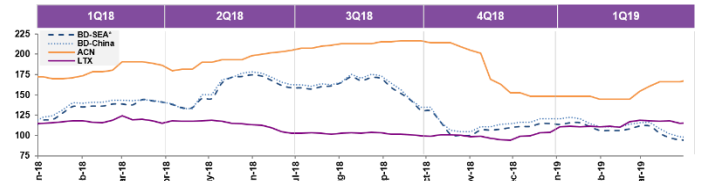
NR Sales Volume by Country (1Q19)



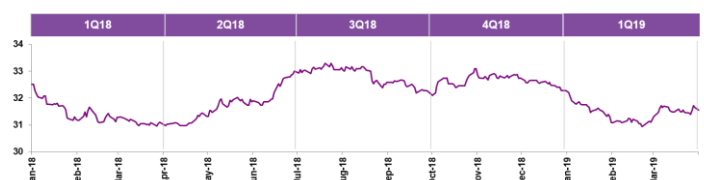
TSR20 and RSS3 Price Movement (US cent : Kg.)



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



Exchange Rate of Thai Baht against US Dollar



## Statements of Comprehensive Income

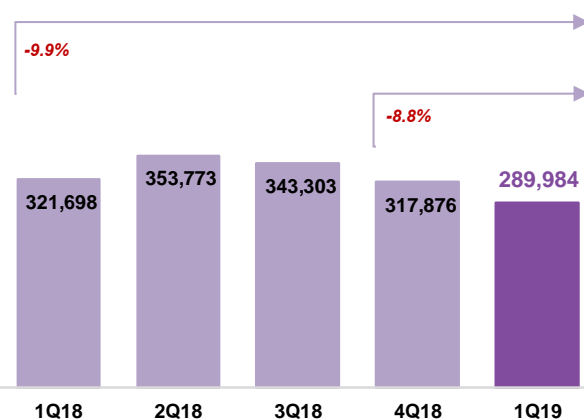
(Unit : THB million)	1Q19	1Q18	%YoY	4Q18	%QOQ
Revenue from sales of goods and services	15,248.0	17,689.1	-13.8%	17,189.6	-11.3%
Cost of sales and services	(14,238.1)	(16,178.6)	-12.0%	(15,822.9)	-10.0%
Gross profit (loss)	1,009.9	1,510.4	-33.1%	1,366.7	-26.1%
SG&A	(1,150.8)	(1,227.3)	-6.2%	(1,350.5)	-14.8%
Other income	29.6	95.8	-69.1%	67.2	-55.9%
Gains (loss) on exchange rate, net	110.8	254.8	-56.5%	40.3	174.8%
Other gains, net	(448.7)	501.4	N/A	156.0	N/A
Operating profit (loss)	(449.2)	1,135.2	N/A	279.8	N/A
Share of profit (loss) from investments in JV	37.2	80.1	-53.6%	26.5	40.3%
EBITDA	164.4	1,762.5	-90.7%	993.5	N/A
EBIT	(412.0)	980.4	N/A	306.3	N/A
Finance costs	(227.7)	(236.7)	-3.8%	(225.5)	1.0%
Income tax (expense)	9.7	(118.0)	N/A	55.9	N/A
Net Profit (loss) for the periods	(618.2)	862.4	N/A	151.1	N/A
Attributed to Owners of the parent	(627.7)	831.8	N/A	139.1	N/A
Attributed to non-controlling interests	9.5	30.5	-68.9%	12.0	-20.9%

**Total revenue from products and services** in 1Q19 was Baht 15,248.0 million, down 13.8% YoY and 11.3% QoQ. Revenue from NR products fell 20.6% YoY and 13.7% QoQ to Baht 11,940.0 million. The YoY drop in revenue resulted from a decrease in both average selling price and sales volume. The QoQ drop in revenue was primarily attributed to a decline in the sales volume and average selling price of TSR, which was caused by the sudden appreciation Thai Baht against US dollar, as it meant the average selling price was lower when converted back to Thai Baht, despite higher NR prices on the global markets. Revenue from gloves was Baht 3,043.9 million, up 16.5% YoY but down 4.5% QoQ. The YoY growth in revenue resulted from a 26.2% growth in sales volume on the back of the growth in demand from the emerging markets as well as our increased market share in the developed markets. The QoQ drop in revenue resulted from the average selling price that was lower as a result of the appreciation of Thai Baht against US Dollar, as 88.5% of our revenue from gloves came from exports.

**Sales volume for NR** in 1Q19 dropped 9.9% YoY and 8.8% QoQ to 289,984 tons. The YoY fall in sales volume resulted from a drop in export and domestic sales volume for TRS and RSS, while sales volume for LTX was up slightly. The QoQ drop in sales volume primarily resulted from a decline in export volume to China, the major TSR consumer, as the increase in NR prices during a short period led NR consumers in China to delay purchasing and increase consumption from the existing inventories.

However, domestic sales volume grew slightly by 8.4% on the back of increased consumption from tire manufacturers and other industries. Geographically, China still remained our largest market despite demand that softened considerably, accounting for 40.4% of our total sales volume, while other markets in Asia, which saw increased consumption from Japan, Singapore, Taiwan and Indonesia, accounted for 31.8% of total sales volume. The Americas and Europe accounted for 5.0% and 4.7% of total sales volume, respectively. The domestic market accounted for 17.9% of total sales volume.

NR Sales Volume (tons)



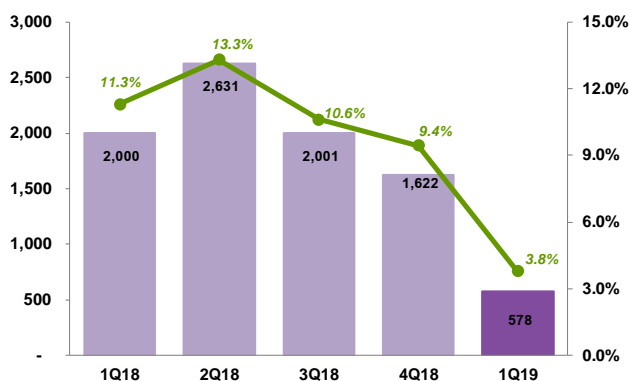
## Revenue by Product (THB million)

	1Q19	1Q18	% YoY	4Q18	% QoQ
TSR	9,374.6	11,977.7	-21.7%	11,323.4	-17.2%
%	61.5%	67.7%		65.9%	
Gloves	3,043.9	2,612.9	16.5%	3,188.5	-4.5%
%	20.0%	14.8%		18.5%	
RSS	1,614.9	1,884.9	-14.3%	1,459.2	10.7%
%	10.6%	10.7%		8.5%	
LTX	950.5	1,183.9	-19.7%	1,054.6	-9.9%
%	6.2%	6.7%		6.1%	
Other*	264.1	29.6	792.1%	164.0	61.1%
%	1.7%	0.2%		1.0%	
<b>Total</b>	<b>15,248.0</b>	<b>17,689.1</b>	<b>-13.8%</b>	<b>17,189.6</b>	<b>-11.3%</b>

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 1Q19 was Baht 1,009.9 million, down 33.1% YoY and 26.1% QoQ. Gross profit margin was 6.6%, down from 8.5% in 1Q18 and from 8.0% in 4Q18. The decline in gross profit margin resulted from increased raw material costs as prices of cup lump in Thailand and Indonesia and concentrated latex in Thailand moved up higher than NR prices on the global markets. The sudden appreciation of Thai Baht against US Dollar in 1Q19 also contributed to the decline in gross profit margin as we had difficulty adjusting selling prices throughout 1Q19. Taking account of the reversal of inventory allowance and realized losses from hedging transactions of Baht 431.9 million, our adjusted gross profit margin in 1Q19 would have been 3.8%, down from 11.3% in 1Q18 and 9.4% in 4Q18.

## Adjusted GP and GPM\* (Unit : THB million)



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

**Operating profit:** In 1Q19 we had an operating loss of Baht 449.2 million, compared with operating profits of Baht 1,135.2 million in 1Q18 and Baht 279.8 million in 4Q18, as a result of a decline in gross profit and currency exchange gains. Administrative and selling expenses went down 6.2% YoY and 14.8% QoQ, partly as a result of selling expenses that dropped in tandem with sales volume. But the decrease in administrative and selling

expenses mainly resulted from expenses associated with personnel that went down following the corporate restructuring to improve efficiency. We also recorded Baht 448.7 million in losses from hedging transactions, compared with Baht 501.4 million and Baht 156.0 million in gains from hedging transactions in 1Q18 and 4Q18, respectively. The losses from hedging transactions, of which Baht 122.1 million were still unrealized, stemmed from the sudden change in movements of NR prices. At the end of 1Q19, we also had Baht 842.6 million in surplus\* from inventory at lower of cost or net realizable value.

Note: \*Inventory balance of the Company at net realizable value (NRV), for only RSS, LTX and TSR, is at lower of cost or net realizable value. Under the Thai Financial Reporting Standards, such surplus from inventories is 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.

**Share of profits from investments in associates and joint ventures** in 1Q19 was Baht 37.2 million, down 53.6% YoY but up 40.3% QoQ. The YoY drop resulted from the lackluster performance of our joint ventures on NR and high-pressure hydraulic hoses, while the QoQ increase was driven by the return to profitability of our NR joint ventures, compared with a loss in 4Q18.

**Net loss** in 1Q19 was Baht 627.7 million, primarily because of short-term losses from hedging transactions and the performance of our NR operations. Financing costs was Baht 227.7 million, down 3.8% YoY as a result of a decrease in short-term borrowings for raw material purchasing, but up 1.0% QoQ because of higher interest rate. In our NR operations, we will continue to implement the selective selling strategy and focus on spot contract rather than long-term contract. For our glove operations, we had to deal with latex prices that moved up quickly and the appreciation of Thai Baht against US Dollar and we had to adjust prices accordingly. However, because the proportion of our sales volume in 1Q19 was 70% latex gloves and 30% nitrile gloves, we were more affected by the rise in LTX prices than the drop of prices of synthetic rubber. The persistently low NR prices, which had remained for many quarters, also led to difficulty in adjusting selling prices. In short, 1Q19 was a period of cost and price adjustment for gloves operation.



## Business Segmentation Analysis



### Technically Specified Rubber (TSR)

Revenue from TSR accounts for 61.5% of total revenue and fell 21.7% YoY and 17.2% QoQ.

The YoY decline in revenue resulted from both the sales volume that dropped 12.1%, because of lower domestic and export sales volume, and the average selling price that dropped 11.0% in tandem with NR prices on the global markets.

The QoQ drop in revenue resulted from both the sales volume that fell 12.2% as a result of a decline in export volume to China and the average selling price that fell 5.7%, inconsistent with the upward movement of NR prices in 1Q19, following the appreciation of Thai Baht against US Dollar.

Gross profit margin was down slightly compared with 1Q18 and 4Q18.



### Ribbed Smoked Sheet (RSS)

Revenue from RSS accounts for 10.6% of total revenue and fell 14.3% YoY but went up 10.7% QoQ.

The YoY decrease in revenue resulted from a 5.3% fall in sales volume as a result of export volume that went down, and a 9.5% drop in average selling price, which went down in tandem with NR prices on the global markets. The QoQ growth in revenue primarily resulted from sales volume that went up 8.8%, while the average selling price slightly increased by 1.7% on the strength of increased domestic consumption from tire manufacturers.

Gross profit margin went up slightly compared with 1Q18 but was down when compared with 4Q18.



### Gloves

Revenue from gloves accounts for 20.0% of total revenue and rose 16.5% YoY but fell 4.5% QoQ.

The YoY growth in revenue resulted from sales volume that increased by 26.2% on the back of increased demand from the emerging markets and increased market share in Europe, even though the average selling price went down by 7.7% because prices of synthetic rubber, the primary raw material in nitrile glove production, went down in tandem with oil prices on the global market\*, while prices of LTX, the primary raw material in latex glove production, went up higher.

The QoQ fall in revenue mainly resulted from the average selling price that dropped 6.8%, inconsistent with prices of LTX, which went up by 14.9% QoQ. The drop in average selling prices partly resulted from the appreciation of Thai Baht against US Dollar. Even though we tried to increase selling prices throughout 1Q19, it took some time to keep up with LTX prices that moved up rapidly. As a result, gross profit margin for gloves was down considerably from 1Q18 and fell slightly from 4Q18.

Note: \*Synthetic rubber is derived from crude oil.



### Concentrated Latex (LTX)

Revenue from LTX accounts for 6.2% of total revenue and fell 19.7% YoY and 9.9% QoQ.

The YoY decrease in revenue resulted from a 20.9% drop in average selling price, which went down in tandem with NR prices, even though sales volume was up 1.6% on the back of increased consumption from the glove industry. The QoQ decrease in revenue resulted from a 10.4% drop in average selling price while sales volume slightly grew by 0.6%. However, the discrepancy between the demand and supply of latex, which was affected by the start of the wintering season and the speculative activities, led to price competition and caused a sharp drop in gross profit margin compared with 1Q18 and 4Q18.



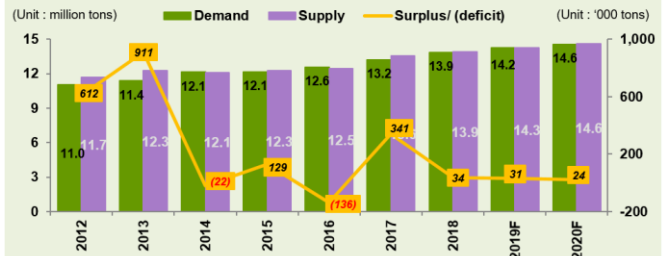
## Industry Outlook

NR prices moved up steadily throughout 1Q19. The average price of TSR20 in 1Q19 was 139.4 cent/kg. From December 2018 to March 2019, prices of TSR20 and RSS3 on SICOM moved up 15.0% and 25.9%, respectively, as a result of limited NR supply during the harvest season (a period from November to February of every year) and the upcoming wintering season. While the International Rubber Study Group (IRSG) still predicts an oversupply of NR in 2019, the situation should improve from 2018, with a surplus of 31,000. Meanwhile, NR demand from tire manufacturers and glove producers is expected slow in 1Q19 as a quick increase in NR prices led consumers to delay purchasing and consume existing inventories. There has not been any report on the natural rubber and compound rubber inventory in Qingdao since November 2018, while the Shanghai Futures Exchange (SHFE) rubber stock remained unchanged from 4Q19 at 440,000 tons.

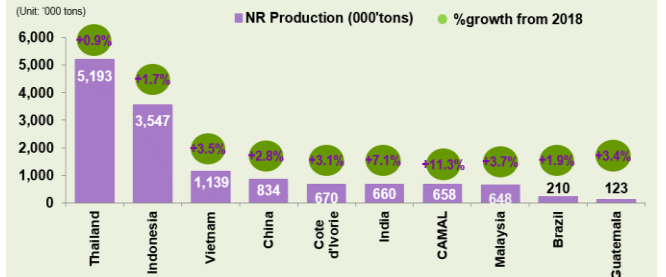
NR prices are expected to move upward in 2Q19 as consumers resume purchasing. The International Tripartite Rubber Council (ITRC) also agreed to implement the Agreed Export Tonnage Scheme (AETS) to reduce NR exports from Thailand, Indonesia, and Malaysia by 240,000 tons for 4 months. Indonesia and Malaysia already started to implement the scheme since 1 April 2019 while Thailand has not yet come out with the details. What remains to be seen is whether the arid weather conditions would prolong the wintering season in Thailand (a period from late February to May of every year), in which case, NR supply would be reduced and prices could go up. The continuing trade war between the US and China and the growth of the global economy also continue to weigh on market sentiments.

Note: \* International Rubber Study Group (IRSG), *The World Rubber Industry Outlook, Review and Prospects to 2027, December 2018* and *Rubber Industry Report (October – December 2018)*

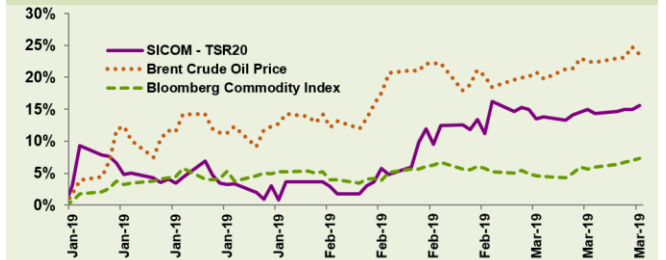
## Global Demand and Supply of NR



## NR Production from Top 10 Producing Countries

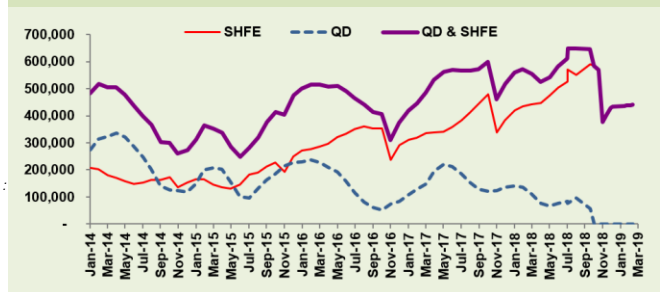


## Commodity Price Movement



Source: Bloomberg

## NR and CR Stocks at Qingdao & SHFE, China (tons)



## Progress of Our Business Growth Plan throughout the Supply Chain



### Upstream Business – approximately 7,500 hectares of rubber plantations

As of 31 March 2019, we had approximately 7,200 hectares of rubber plantations in 19 provinces of Thailand, with the majority in the north and northeast. About 89% of the plantations have been planted with rubber trees and some portions have been providing yields since 2015, facilitating the raw material sourcing in the midstream.

We estimate that in 2019, rubber trees that are ready to be tapped would account for 11% of total rubber trees, a development that would benefit our core business in the midstream.

### Midstream Business – maintaining profitability and moving toward “STA 20”

As of 31 March 2019, we had a total 36 production facilities, of which 32 are located in Thailand, three in Indonesia, and one in Myanmar. Together they provide a total of 2.86 million tons per annum in production capacity. This year we plan to implement more automation to improve efficiency, reduce energy consumption and become friendlier to the environment.

In the long run, we are focused on maintaining relationships with our existing customers as well as cultivating new ones, such as tire manufacturers 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 2018, our market share was 10% of global NR consumption.)

### Downstream Business – aiming to rank among the world’s top three glove producers

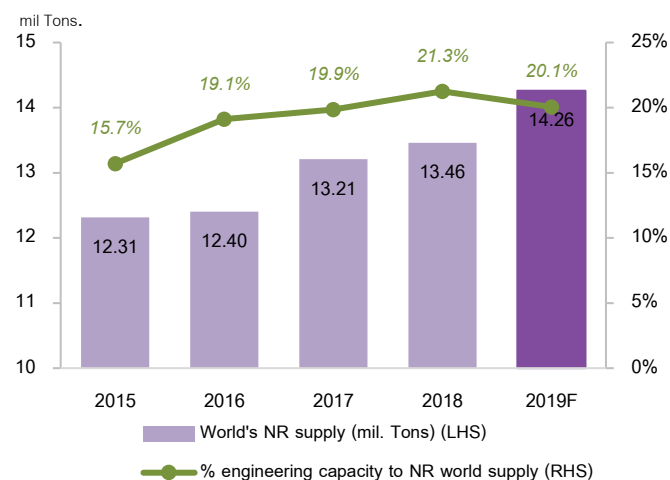
We intend to capitalize on our competitive advantage over competitors in the production of latex gloves, which is our ready access to quality concentrated latex. We will also continue to produce nitrile gloves to satisfy customer demand from all over the world for both medical and lifestyle uses. In 2018, our market share was 6% of global glove consumption.

On 1 April 2019, we completed the amalgamation of Sri Trang Gloves (Thailand) Ltd. (“STGT”) and Thaikong Public Company Limited (“TK”), which is a glove producer based in Trang with 4 billion pieces of gloves per annum in production capacity. As a result of the amalgamation, our production capacity has been increased to 21.2 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\* and aim 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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