

RATCH Group Public Company Limited

Management Discussion and Analysis

For the Three-month and Nine-month Periods Ended 30 September, 2019



Executive Summary

Unit : Million baht

	Quarter 3		Increase (Decrease)	%	Quarter 1-3		Increase (Decrease)	%
	2019	2018			2019	2018		
Total revenues *	3,669.65	3,819.56	(149.91)	(3.9)	12,071.86	11,672.35	399.51	3.4
Total cost and expenses *	2,141.33	2,107.37	33.96	1.6	6,664.32	6,201.44	462.88	7.5
Loss on foreign exchange	(163.48)	(31.66)	(131.82)	(416.4)	(349.13)	(550.55)	201.42	36.6
Profit attributable to owner of the Company	1,364.84	1,680.53	(315.69)	(18.8)	5,058.41	4,938.99	119.42	2.4

* excluding fuel cost

The operating result for the 3rd quarter of 2019 showed the profit (attributable to owners of the Company) of THB 1,364.84 million, decreasing by THB 315.69 million. The main reason was Ratchaburi Power Plants had shutdowns for planned maintenance more than those of the same period of the previous year. This resulted in the decrease in revenue from sales and rendering of services (excluding fuel costs) due to the decrease in Availability Payment and the increase in power plants' spare parts. In addition, the Company recorded loss on foreign exchange as AUD currency depreciated in relative to USD currency.

The operating result for the nine-month period of the year 2019 showed the profit (attributable to owners of the Company) of THB 5,058.41 million, increasing by THB 119.42 million since the commencement of commercial operation of Mount Emerald Wind Farm Project and Collinsville Solar Power Project on December 12, 2018 and March 21, 2019, respectively this resulted in the increase in revenue from sales and rendering of services and cost of sales and rendering of services (excluding fuel costs). In addition, the Company recorded the profit from Fareast Renewable Development Pte Ltd, acquired in December 2018 and Berkprai Cogeneration Company Limited, commencing commercial operation on June 1, 2019.



(Translation)

1. Significant events of the 3rd quarter of 2019

1.1 Signing of Power Purchase Agreement of Hin Kong Power Company Limited

On July 12, 2019, Hin Kong Power Company Limited, a subsidiary, has entered into the Power Purchase Agreement for Hin Kong Power Project in Hin Kong Sub-district, Muang District, Ratchaburi Province with Electricity Generating Authority of Thailand. The agreement is effective from the execution date until the 25th year from the commercial operation date.

The project is a combined-cycle power plant project that used natural gas as the main fuel with total contracted capacity of 1,400 megawatts (700 megawatts per unit) according to the Power Purchase Agreement. It is scheduled for commercial operation in 2024 and 2025 respectively. At present, the project is in the process of preparing the Environmental Impact Assessment.

1.2 Investment in Yandin Wind Farm in the Commonwealth of Australia

On July 26, 2019, RATCH-Australia Corporation Pty Ltd (“RAC”), a subsidiary, has invested in the 214-Megawatt Yandin Wind Farm located in Western Australia. RAC has purchased 70 percent of common shares in Yandin WF Holding Pty Ltd from Renewable Energy Investment Fund Pty Ltd (“REIF”), a subsidiary of Alinta Energy Pty Ltd (“Alinta”) and 70 percent of investment units in Yandin WF Holding Unit Trust from Renewable Energy Investment Fund Unit Trust. The investment is approximately AUD 53.31 million.

The project is located in the Dandaragan area, 150 kilometers north of Perth in Western Australia, the Commonwealth of Australia. The project has started construction with the syndicated facility agreement approximately AUD 364 million executed on July 15, 2019. The project has a 15-year power purchase agreement with Alinta Sales Pty Ltd, a subsidiary of Alinta.

1.3 Share Purchase of Navanakorn Electric Company Limited (name changed to RATCH Cogeneration Company Limited)

On August 20, 2019, the Company has entered into Share Purchase Agreement to purchase ordinary and preferred shares of Navanakorn Electric Company Limited (name changed to RATCH Cogeneration Company Limited) at 99.97 percent, from the existing shareholders. On October 1, 2019, the Company paid for the shares in the amount of THB 1,866.05 million.

RATCH Cogeneration power plant is a gas-fired SPP cogeneration power plant with power generating capacity of 110 megawatts and steam generating capacity of 10 tons per hour. It is located in the south of Nava Nakorn Industrial Promotion Zone, Pathum Thani Province. It has a 25-year SPP-Firm Cogeneration Power Purchase Agreement with Electricity Generating Authority of Thailand for 90 megawatts. The remaining electricity and steam are sold to industrial customers. The power plant has already been commercially operating since October 31, 2013.

2. Operation performance according to consolidated financial statement

For the three-month period (July 1, 2019 – September 30, 2019)

Unit : Million baht

	Quarter 3		Increase (Decrease)	%
	2019	2018		
Revenue from sales and rendering of services (excluding fuel cost)	1,650.88	1,719.03	(68.15)	(4.0)
Revenue from finance lease contract	721.06	814.45	(93.39)	(11.5)
Share of profit of associates / joint ventures	1,154.33	1,084.03	70.30	6.5
Other incomes	143.38	202.05	(58.67)	(29.0)
Total revenues	3,669.65	3,819.56	(149.91)	(3.9)
Cost of sales and rendering of services (excluding fuel cost)	1,328.41	1,128.15	200.26	17.8
Administrative expenses	368.90	384.52	(15.62)	(4.1)
Finance costs	221.36	337.54	(116.18)	(34.4)
Income tax expense	222.66	257.16	(34.50)	(13.4)
Total expenses	2,141.33	2,107.37	33.96	1.6
Profit before exchange rate - the Company and subsidiaries	1,528.32	1,712.19	(183.87)	(10.7)
Gain (loss) on foreign exchange - the Company and subsidiaries	(163.48)	(31.66)	(131.82)	(416.4)
Profit attributable to owner of the Company	1,364.84	1,680.53	(315.69)	(18.8)
Fuel Cost	6,422.84	8,959.70		

The operating result according to the consolidated financial statement for the 3rd quarter of 2019 showed the profit (attributable to owners of the Company) of THB 1,364.84 million or THB 0.94 per share, decreasing by THB 315.69 million, or 18.8 percent, compared with the profit of THB 1,680.53 million or THB 1.16 per share of the 3rd quarter of 2018. The operating result according to the consolidated financial statement for the 3rd quarter of 2019, without consideration of the effect of foreign exchange gain (loss) of the Company and subsidiaries showed the profit of THB 1,528.32 million, compared with the profit of THB 1,712.19 million of the 3rd quarter of 2018, decreasing by THB 183.87 million, or 10.7 percent. The significant transactions were as follows:

2.1 Revenue from sales and rendering of services (excluding fuel costs)

Revenue from sales and rendering of services for the 3rd quarter of 2019 was THB 1,650.88 million (excluding fuel costs of THB 6,422.84 million), decreasing by THB 68.15 million or 4.0 percent from revenue from sales and rendering of services in the 3rd quarter of 2018 of THB 1,719.03 million (excluding fuel costs of THB 8,959.70 million). The main reason was the decrease in revenue from sale of Ratchaburi Electricity Generating Company Limited, a subsidiary, in the amount of THB 180.93 million because the shutdowns for planned maintenance were more than those of the same period of the previous year. On the other hand, revenue from sale of RATCH-Australia Corporation Pty Ltd, a subsidiary, increased in the amount of THB 112.60 million, due to the commencement of commercial operation of Mount Emerald Wind Farm Project and Collinsville Solar Power Project on December 12, 2018 and March 21, 2019, respectively.

2.2 Revenue from finance leases contracts

Revenue from finance lease contracts for the 3rd quarter of 2019 was THB 721.06 million, decreasing by THB 93.39 million or 11.5 percent from THB 814.45 million in the 3rd quarter of 2018. The change was due to the decreased lease receivable, calculated according to the Effective Interest Method.

2.3 Cost of sales and rendering of services (excluding fuel costs)

Cost of sales and rendering of services for the 3rd quarter of 2019 was THB 1,328.41 million (excluding fuel costs of THB 6,422.84 million), increasing by THB 200.26 million or 17.8 percent from cost of sales and rendering of services in the 3rd quarter of 2018 of THB 1,128.15 million (excluding fuel costs of THB 8,959.70 million). The main reason was cost of sales from RATCH-Australia Corporation Pty Ltd, a subsidiary, increased in the amount of THB 114.29 million, due to the commencement of commercial operation of Mount Emerald Wind Farm Project and Collinsville Solar Power Project on December 12, 2018 and March 21, 2019, respectively. In addition, cost of sales from Ratchaburi Electricity Generating Company Limited, a subsidiary, increased in the amount of THB 86.32 million because the shutdowns for planned maintenance were more than those of the same period of the previous year.

2.4 Administrative expenses and finance costs

Administrative expenses and finance costs for the 3rd quarter of 2019 were THB 590.26 million, decreasing by THB 131.80 million or 18.3 percent from THB 722.06 million in the 3rd quarter of 2018. The decrease in finance cost of THB 135.24 million was from the recognition on remeasurement to fair value of the derivative according to the adopted accounting policies for derivatives and hedge accounting.

2.5 Share of profit of associates and joint ventures

Share of profit of associates and joint ventures for the 3rd quarter of 2019 was THB 1,154.33 million, increasing by THB 70.30 million or 6.5 percent from THB 1,084.03 million in the 3rd quarter of 2018. The main reasons were as follows:

(1) The share of profit from Hongsa Power Company Limited ("HPC"), a joint venture in proportion of 40 percent, increased in the amount of THB 215.24 million. The main reason was that during the 3rd quarter of 2018, HPC recorded loss on exchange rate in the amount of THB 177.33 million, due to the depreciation of USD currency. In contrast, during the year 2019, HPC had adopted accounting policies for derivatives and hedge accounting, relating to Expenditure Hedging, resulting in decrease of foreign exchange effect. In addition, HPC generated electricity more than in the same period of the previous year.

(2) The share of profit from Fareast Renewable Development Pte. Ltd. ("FRD"), a joint venture investing in Asahan-1 Hydroelectric Power Project in the Republic of Indonesia, in proportion of 50 percent, was THB 64.76 million. RH International (Singapore) Corporation Pte. Ltd., a subsidiary, has purchased ordinary shares of FRD in December 2018.

(3) The share of profit from Berkprai Cogeneration Company Limited, a joint venture in proportion of 35 percent, increased in the amount of THB 29.78 million. The main reason was the power plant has commenced commercial operation on June 1, 2019.

(4) The share of profit from SouthEast Asia Energy Limited, a joint venture in proportion of 33.33 percent, decreased in the amount of THB 249.60 million, mainly due to the lower electricity generation, compared to the same period of the previous year.

2.6 The effect of exchange rate of the Company and its subsidiaries

In the 3rd quarter of 2018 and 2019, the Company recorded loss on foreign exchange of THB 31.66 million and THB 163.48 million, respectively. The main reason was from loan to related parties in AUD currency. As AUD currency depreciated in relative to USD currency, the asset value in AUD currency decreased.

3. Operation performance according to consolidated financial statement

For the nine-month period (January 1, 2019 – September 30, 2019)

Unit : Million Baht				
	Quarter 1-3		Increase (Decrease)	%
	2019	2018		
Revenue from sales and rendering of services (excluding fuel cost)	5,844.86	4,861.45	983.41	20.2
Revenue from finance lease contract	2,210.62	2,553.30	(342.68)	(13.4)
Share of profit of associates / joint ventures	3,517.29	3,700.02	(182.73)	(4.9)
Other incomes	499.09	557.58	(58.49)	(10.5)
Total revenues	12,071.86	11,672.35	399.51	3.4
Cost of sales and rendering of services (excluding fuel cost)	3,812.76	3,486.51	326.25	9.4
Administrative expenses	1,159.94	1,162.27	(2.33)	(0.2)
Finance costs	953.31	902.38	50.93	5.6
Income tax expense	738.31	650.28	88.03	13.5
Total expenses	6,664.32	6,201.44	462.88	7.5
	5,407.54	5,470.91	(63.37)	(1.2)
Non-controlling Interests	-	18.63	(18.63)	(100.0)
Profit before exchange rate - the Company and subsidiaries	5,407.54	5,489.54	(82.00)	(1.5)
Gain (loss) on foreign exchange - the Company and subsidiaries	(349.13)	(550.55)	201.42	36.6
Profit attributable to owner of the Company	5,058.41	4,938.99	119.42	2.4
Fuel Cost	21,539.14	23,796.03		

The operating result according to the consolidated financial statement for the nine-month period of the year 2019 showed the profit (attributable to owners of the Company) of THB 5,058.41 million or THB 3.49 per share, increasing by THB 119.42 million, or 2.4 percent, compared with the profit of THB 4,938.99 million or THB 3.41 per share of the nine-month period of the year 2018. The operating result according to the consolidated financial statement for the nine-month period of the year 2019, without consideration of the effect of foreign exchange gain (loss) of the Company and subsidiaries showed the profit of THB 5,407.54 million, compared with the profit of THB 5,489.54 million of the nine-month period of the year 2018, decreasing by THB 82.00 million, or 1.5 percent. The significant transactions were as follows:

3.1 Revenue from sales and rendering of services (excluding fuel costs)

Revenue from sales and rendering of services for the nine-month period of the year 2019 was THB 5,844.86 million (excluding fuel costs of THB 21,539.14 million), increasing by THB 983.41 million or 20.2 percent from revenue from sales and rendering of services in the nine-month period of the year 2018 of THB 4,861.45 million (excluding fuel costs of THB 23,796.03 million). The main reason was revenue from sale of RATCH-Australia Corporation Pty Ltd, a subsidiary, increased in the amount of THB 633.68 million, due to the commencement of commercial operation of Mount Emerald Wind Farm Project and Collinsville Solar Power Project on December 12, 2018 and March 21, 2019, respectively. Additionally, revenue from sale of Ratchaburi Electricity Generating Company Limited, a subsidiary, increased in the amount of THB 348.34 million due to the increase in Base Availability Credit in 2019 compared to that of 2018, as specified in the Power Purchase Agreement.

3.2 Revenue from finance leases contracts

Revenue from finance lease contracts for the nine-month period of the year 2019 was THB 2,210.62 million, decreasing by THB 342.68 million or 13.4 percent from THB 2,553.30 million in the nine-month period of the year 2018. The change was due to the decreased lease receivable, calculated according to the Effective Interest Method.

3.3 Cost of sales and rendering of services (excluding fuel costs)

Cost of sales and rendering of services for the nine-month period of the year 2019 was THB 3,812.76 million (excluding fuel costs of THB 21,539.14 million), increasing by THB 326.25 million or 9.4 percent from cost of sales and rendering of services in the nine-month period of the year 2018 of THB 3,486.51 million (excluding fuel costs of THB 23,796.03 million). The main reason was cost of sales from RATCH-Australia Corporation Pty Ltd, a subsidiary, increased in the amount of THB 322.68 million, due to the commencement of commercial operation of Mount Emerald Wind Farm Project and Collinsville Solar Power Project on December 12, 2018 and March 21, 2019; respectively.

3.4 Share of profit of associates and joint ventures

Share of profit of associates and joint ventures for the nine-month period of the year 2019 was THB 3,517.29 million, decreasing by THB 182.73 million or 4.9 percent from THB 3,700.02 million in the nine-month period of the year 2018. The main reasons were as follows:

3.4.1 The share of loss from Xe-Pian Xe-Namnoy Power Company Limited (“PNPC”), a joint venture which the project is during construction, in proportion of 25 percent, increased in the amount of THB 224.84 million. The main reason was that during the nine-month period of the year 2019, PNPC recorded loss on exchange rate in the amount of THB 142.97 million, due to the depreciation of USD currency.

3.4.2 The share of profit from SouthEast Asia Energy Limited, a joint venture in proportion of 33.33 percent, decreased in the amount of THB 170.33 million, mainly due to the lower electricity generation, compared to the same period of the previous year.

3.4.3 The share of profit from Fareast Renewable Development Pte Ltd (“FRD”), a joint venture investing in Asahan-1 Hydroelectric Power Project in the Republic of Indonesia, in proportion of 50 percent, was THB 186.68 million. RH International (Singapore) Corporation Pte Ltd, a subsidiary, has purchased ordinary shares of FRD in December 2018.

3.4.4 The share of profit from Berkprai Cogeneration Company Limited, a joint venture in proportion of 35 percent, increased in the amount of THB 41.94 million. The main reason was the power plant has commenced commercial operation on June 1, 2019.

3.5 The effect of exchange rate of the Company and its subsidiaries

In the nine-month periods of the year 2018 and 2019, the Company recorded loss on foreign exchange of THB 550.55 million and THB 349.13 million, respectively. The main reason was from loan to related parties in AUD currency. As AUD currency depreciated in relative to USD currency, the asset value in AUD currency decreased.

4. Analysis of statement of financial position

4.1 Analysis of assets

As at September 30, 2019, the total assets were THB 96,556.62 million, decreasing by THB 4,695.28 million or 4.6 percent from THB 101,251.90 million as at December 31, 2018. The details were as follows:

	(Million Baht)			
	Sep 30, 2019	Dec 31, 2018	Increase (Decrease)	%
Current assets	23,732.47	23,160.90	571.57	2.5
Non-current assets	72,824.15	78,091.00	(5,266.85)	(6.7)
Total Assets	96,556.62	101,251.90	(4,695.28)	(4.6)

4.1.1 Cash and cash equivalents decreased in the amount of THB 334.17 million. The details are described in no.5, and current investments decreased in the amount of THB 1,091.82 million.

4.1.2 Investments in associates and joint ventures decreased in the amount of THB 1,519.59 million. The main reasons were from dividend income in the amount of THB 3,373.71 million and exchange rate adjustment in the amount of THB 1,216.09 million. On the other hand, the share of profit contributed during the period in the total amount of THB 3,517.29 million.

4.1.3 Financial lease receivables from related party decreased in the amount of THB 1,021.43 million.

4.1.4 Property, plant and equipment decreased in the amount of THB 806.04 million. The main reasons were from exchange rate adjustment in the amount of THB 1,753.12 million and the depreciation during the period in the amount of THB 906.59 million. On the other hand, assets under construction of RATCH-Australia Corporation Pty Limited, a subsidiary located in Australia, increased in the amount of AUD 67.45 million or equivalent to approximately THB 1,469.50 million, mainly due to the construction of Collector Wind Farm Project.

4.2 Analysis of liabilities and equity

As at September 30, 2019, the total liabilities and equity were THB 96,556.62 million, decreasing by THB 4,695.28 million or 4.6 percent from THB 101,251.90 million as at December 31, 2018. The details were as follows:

	(Million Baht)		
	Sep 30, 2019	Dec 31, 2018	Increase (Decrease) %
Liabilities	37,980.05	41,315.88	(3,335.83) (8.1)
Equity	58,576.57	59,936.02	(1,359.45) (2.3)
Total Liabilities and Equity	96,556.62	101,251.90	(4,695.28) (4.6)

4.2.1 Liabilities decreased in the amount of THB 3,335.83 million, the main reasons were as follows:

(1) RH International (Singapore) Corporation Pte Ltd “RHIS”, a subsidiary, redeemed debenture which was due in May 2019 in the amount of USD 107 million.

(2) Long-term loans from financial institutions and debentures decreased in the total amount of THB 1,643.07 million. The main reason was the fact that AUD and USD currencies depreciated in relative to THB currency.

(3) Short-term loan from financial institution increased in the amount of THB 1,376.64 million. The main reason was RH International (Singapore) Corporation Pte Ltd “RHIS”, a subsidiary, received a short-term loan from financial institution in the amount of USD 45 million.

4.2.2 Equity decreased in the amount of THB 1,359.45 million. The main reasons were as follows:

(1) The profit of the nine-month period of the year 2019 in the amount of THB 5,058.41 million

(2) The dividend payment during the nine-month period of the year 2019 decreased retained earnings in the amount of THB 3,480 million.

(3) Other components of equity decreased in the amount of THB 2,754.07 million. The main reasons were currency translation differences decrease equity in the amount of THB 1,124.72 million, the cash flow hedge reserve decreased equity in the amount of THB 645.32 million, share of other comprehensive income expense of associates and joint ventures decreased equity in the amount of THB 526.28 million, and change in fair value of the investment in EDL-Generation Public Company decreased equity in the amount of THB 451.22 million.

5. Analysis of cash flows

Cash and cash equivalents of the Company and its subsidiaries as at September 30, 2019 were THB 11,361.08 million, decreasing by THB 334.17 million from THB 11,695.25 million on December 31, 2018. The details were summarized below:

	(Million Baht)
Net cash from operating activities	4,243.22
Net cash from investing activities	2,041.00
Net cash used in financing activities	(6,378.78)
Effect of exchange rate changes on cash and cash equivalents	(239.61)
Net cash decrease during the period	(334.17)

5.1 Net cash from operating activities increased cash flow in the amount of THB 4,243.22 million. The reason was the operating result of the nine-month period of the year 2019 improved cash position by THB 4,320.75 million, adjusting by the change in operating assets and liabilities in the amount of THB -77.53 million.

5.2 Net cash from investing activities increased cash flow in the amount of THB 2,041.00 million. The main reasons were as follows:

5.2.1 The Company received dividends from associates and joint ventures in the total amount of THB 3,484.25 million.

5.2.2 RATCH-Australia Corporation Pty Ltd, a subsidiary, paid for the construction of Collector Wind Farm Project in the amount of AUD 65.98 million.

5.3 Net cash used in financing activities decreased cash flow in the amount of THB 6,378.78 million. The main reasons were as follows:

5.3.1 RH International (Singapore) Corporation Pte Ltd “RHIS”, a subsidiary, redeemed debenture which was due in May 2019 in the amount of USD 107 million.

5.3.2 The Company paid dividend to owners in the amount of THB 3,477.32 million.

6. Significant financial ratios (excluded the effect of foreign exchange rate of the Company and subsidiaries)

Ratios		Quarter 3	
		2019	2018
1) Current Ratio	(Times)	2.84	2.31
2) Profit to Total Revenue (excluded fuel costs)	(%)	41.65	44.83
3) Return on Equity **	(%)	10.77	10.79
4) Return on Assets **	(%)	8.41	8.53
5) EBITDA *	(Million Baht)	2,340	2,611
6) EBITDA to Total Assets	(%)	2.39	2.53
7) Debt to Equity Ratio	(Times)	0.65	0.72
8) Debt Service Coverage Ratio	(Times)	3.90	7.63
9) Book Value per Share	(Baht)	40.40	41.23
* Not included the change in lease receivable (Million Baht)		237.34	837.28

** Data for 12-month period