

RATCH Group Public Company Limited

Management Discussion and Analysis

For the Three-month and Six-month Periods Ended 30 June, 2020



Abbreviation	
The Company	RATCH Group Public Company Limited
EGAT	Electricity Generating Authority of Thailand
COD	Commercial Operation Date
EBITDA	Earnings before Interest, Tax, Depreciation and Amortization
FX	Foreign Exchange Rate
IPP	Independent Power Producer
PPA	Power Purchase Agreement
SPP	Small Power Producer

Projects/Companies	
HPC	Hongsa Power Company Limited, an indirect joint venture in proportion of 40 percent
NRER	Nexif Ratch Energy Rayong Company Limited, an indirect joint venture wholly-owned by NERS
NRES	NEXIF RATCH ENERGY SINGAPORE PTE LTD, an indirect joint venture in proportion of 49 percent
RAC	RATCH-Australia Corporation Pty Ltd, a wholly-owned indirect subsidiary
RCO	RATCH Cogeneration Company Limited, a subsidiary in proportion of 99.97 percent
REN	R E N Korat Energy Company Limited, a joint venture in proportion of 40 percent
RG	Ratchaburi Electricity Generating Company Limited, a wholly-owned subsidiary
RHIS	RH International (Singapore) Corporation Pte Ltd, a wholly-owned indirect subsidiary
RIAU	PT Medco Ratch Power RIAU, an indirect joint venture in proportion of 49 percent
RL	RATCH-Lao Services Company Limited, a wholly-owned subsidiary

Executive Summary

Unit : Million baht

	Quarter 2		Increase (Decrease)	%	6-Month		Increase (Decrease)	%
	2020	2019			2020	2019		
Total revenues *	3,695.63	4,387.88	(692.25)	(15.8)	8,202.41	8,402.21	(199.80)	(2.4)
Total cost and expenses *	3,163.18	2,211.89	951.29	43.0	5,686.11	4,522.99	1,163.12	25.7
EBITDA	1,926.64	3,043.75	(1,117.11)	(36.7)	4,796.69	5,877.35	(1,080.66)	(18.4)
Gain (Loss) on FX	541.72	(223.68)	765.40	342.2	(81.31)	(185.65)	104.34	56.2
Profit to owner of the Company	1,074.16	1,952.31	(878.15)	(45.0)	2,434.98	3,693.57	(1,258.59)	(34.1)
Profit before FX	532.44	2,175.99	(1,643.55)	(75.5)	2,516.29	3,879.22	(1,362.93)	(35.1)

* excluding fuel cost

The operating result for the 2nd quarter and the six-month period of 2020 showed the profit (attributable to owners of the Company) of THB 1,074.16 million and THB 2,434.98 million, respectively, decreasing from the same period of the previous year by THB 878.15 million and THB 1,258.59 million, respectively. The decrease is owing to the decrease in the profit of HPC and RG from planned maintenance shutdown. Without consideration of the effect of FX of the Company and subsidiaries, the operating result for the 2nd quarter of 2020 and the six-month period of 2020 showed the profit of THB 532.44 million and THB 2,516.29 million, respectively.



1. Significant Events of the 2nd Quarter of 2020

Thanh Phong Wind Power Plant Project

On May 22, 2020, RHIS invested in Thanh Phong Wind Power Project in the Socialist Republic of Vietnam in the proportion of 51 percent. The project is an onshore wind farm project with generation capacity of 29.70 megawatts. It is located in Ben Tre Province in the south of the Socialist Republic of Vietnam. The project has 20-year PPA with Vietnam Electricity. The project cost is approximately USD 45 million. Currently, it is in preparation for construction. The COD is scheduled in September 2021.

SPP Power Plant Project in Rayong Province by Nexif Ratch Energy Rayong Company Limited (NRER)

On April 27, 2020, NER Singapore Pte Ltd registered the name changed to NEXIF RATCH ENERGY SINGAPORE PTE LTD. On May 5, 2020, Nexif Energy Rayong Company Limited registered the name changed to Nexif Ratch Energy Rayong Company Limited (NRER). On April 21, 2020, NRER was successful in making the first drawdown with financial institutions under its project financial agreement.

The project is a firm-cogeneration small power producer power plant project with the capacity of 92 megawatts, using natural gas as fuel. It is located in SSP Industrial Park, Bankhai District, Rayong Province. It has a 25-year PPA with EGAT. The COD is expected to be approximately in April 2022.

Power Plant Project in Nakhon Ratchasima Province by R E N Korat Energy Company Limited (R E N)

On April 21, 2020, the Company together with Nava Nakorn Public Company Limited and PEA ENCOM International Company Limited have already registered the establishment of the joint venture company named R E N Korat Energy Company Limited which the shareholding proportion is 40, 35, and 25 percent, respectively to jointly develop a power project in Nakhon Ratchasima Province. The project is a cogeneration independent power supply project with the generation capacity of 40 megawatts. It will be located in Nava Nakorn Industrial Promotion Zone, Nakhon Ratchasima province. The project cost is approximately THB 2,176 million. The generated power and steam will be sold to industrial customers and the COD is scheduled in July 2023.

Tri Energy Power Plant

On June 30, 2020, the 720-megawatt Tri Energy Power Plant in Ratchaburi Province, operated by RG has reached the expiration of PPA with EGAT and ceased to operate and distribute electricity to the system since 30 June 2020.

Progress of Projects under Construction (as of June 30, 2020)



Nava Nakorn Power Plant (Extension)	
Type of Power Plant	Firm-Cogeneration SPP Power Plant
Type of Fuel	Natural Gas
Install Capacity (MW)	59.98
Location	Nava Nakorn Industrial Promotion Zone, Pathumthani Province
Ownership	40%
PPA	25 Years with EGAT
COD	September 2020
Progress	96.00%



Yandin Wind-Turbine Power Plant	
Install Capacity (MW)	214.2
Location	Western Australia, Australia
Ownership	70%
PPA	15 years with Alinta
COD	November 2020
Progress	70.00%



Collector Wind-Turbine Power Plant	
Install Capacity (MW)	226.8
Location	New South Wales, Australia
Ownership	100%
PPA	PPA/ Merchant
COD	1 st Quarter of 2021
Progress	66.00%



Riau Power Plant

Type of Fuel	Natural Gas
Install Capacity (MW)	296.23
Location	Republic of Indonesia
Ownership	49%
PPA	20 years with PT PLN
COD	May 2021
Progress	77.05%



MRT Pink Line Project

Technology	Monorail
Route	Khae Rai-Min Buri
Ownership	10%
Contract Term	30 years
COD	2022
Progress	Civil Works = 60.31% Railway System = 53.91%



MRT Yellow Line Project

Technology	Monorail
Route	Lad Prao-Sam Rong
Ownership	10%
Contract Term	30 years
COD	2022
Progress	Civil Works = 60.94% Railway System = 53.94%

2. Operation performance according to consolidated financial statement

Unit : Million baht

	Quarter 2		Increase (Decrease)	%	6-Month		Increase (Decrease)	%
	2020	2019			2020	2019		
Total revenues (excluding fuel costs)	3,695.63	4,387.88	(692.25)	(15.8)	8,202.41	8,402.21	(199.80)	(2.4)
Total cost and expenses (excluding fuel costs)	3,163.18	2,211.89	951.29	43.0	5,686.11	4,522.99	1,163.12	25.7
	532.45	2,175.99	(1,643.54)	(75.5)	2,516.30	3,879.22	(1,362.92)	(35.1)
Non-controlling Interests	(0.01)	-	(0.01)	-	(0.01)	-	(0.01)	-
Profit before FX - the Company and subsidiaries	532.44	2,175.99	(1,643.55)	(75.5)	2,516.29	3,879.22	(1,362.93)	(35.1)
Gain (loss) on FX - the Company and subsidiaries	541.72	(223.68)	765.40	342.2	(81.31)	(185.65)	104.34	56.2
Profit to owner of the Company	1,074.16	1,952.31	(878.15)	(45.0)	2,434.98	3,693.57	(1,258.59)	(34.1)
	<i>Fuel Cost</i>	<i>5,880.41</i>	<i>7,930.03</i>		<i>12,565.38</i>	<i>15,116.29</i>		

Comparing Q2'2020 vs Q2'2019

The operating result according to the consolidated financial statement showed the profit (attributable to owners of the Company) of THB 1,074.16 million or THB 0.74 per share, decreasing by THB 878.15 million. The main reasons due to the RG's Power Plant had planned maintenance shutdown (Major Overhaul) from June 7 to July 28, 2020 and the HPC's Power Plant had planned maintenance shutdown (Major Overhaul) from April to August, 2020. However, the operating result without consideration of the effect of FX gain (loss) of the Company and subsidiaries showed the profit of THB 532.44 million.

Comparing 6-month of 2020 vs 6-month 2019

The operating result according to the consolidated financial statement showed the profit (attributable to owners of the Company) of THB 2,434.98 million or THB 1.68 per share, decreasing by THB 1,258.59 million. The main reasons due to the RG's Power Plant had planned maintenance shutdown (Major Overhaul) from June 7 to July 28, 2020 and the HPC's Power Plant had planned maintenance shutdown (Major Overhaul) from April to August, 2020. However, the operating result without consideration of the effect of FX gain (loss) of the Company and subsidiaries showed the profit of THB 2,516.29 million.

2.1 Analysis of Revenues

Unit : Million baht

	Quarter 2		Increase (Decrease)	%	6-Month		Increase (Decrease)	%
	2020	2019			2020	2019		
Revenue from sales and rendering of services (excluding fuel costs)	2,142.88	2,135.19	7.69	0.4	4,350.68	4,193.99	156.69	3.7
<i>RG</i>	850.96	1,278.08	(427.12)	(33.4)	1,926.81	2,595.18	(668.37)	(25.8)
<i>RAC</i>	727.94	843.92	(115.98)	(13.7)	1,321.65	1,572.49	(250.84)	(16.0)
<i>RCO</i>	548.63	-	548.63	-	1,072.82	-	1,072.82	-
<i>RL</i>	15.35	13.19	2.16	16.4	29.40	26.32	3.08	11.7
Revenue from finance leases contracts	688.28	738.69	(50.41)	(6.8)	1,405.49	1,489.55	(84.06)	(5.6)
Share of profit of associates and joint ventures	652.74	1,281.83	(629.09)	(49.1)	2,133.38	2,362.96	(229.58)	(9.7)
<i>HPC</i>	367.17	971.85	(604.68)	(62.2)	1,441.89	1,656.53	(214.64)	(13.0)
<i>IPPs (excl. HPC)</i>	146.35	86.63	59.72	68.9	154.99	158.92	(3.93)	(2.5)
<i>SPPs</i>	89.58	16.87	72.71	431.0	218.00	80.07	137.93	172.3
<i>Hydro Power Plants</i>	(84.32)	53.84	(138.16)	(256.6)	(10.00)	70.23	(80.23)	(114.2)
<i>Renewable Power Plants</i>	92.46	96.12	(3.66)	(3.8)	230.35	187.88	42.47	22.6
<i>Others</i>	41.50	56.52	(15.02)	(26.6)	98.15	209.33	(111.18)	(53.1)
Management service income	95.57	64.92	30.65	47.2	152.43	120.95	31.48	26.0
Interest income	24.98	53.48	(28.50)	(53.3)	58.40	108.76	(50.36)	(46.3)
Dividend income	61.18	100.88	(39.70)	(39.4)	61.18	100.88	(39.70)	(39.4)
Other income	30.00	12.89	17.11	132.7	40.85	25.12	15.73	62.6
Total revenues	3,695.63	4,387.88	(692.25)	(15.8)	8,202.41	8,402.21	(199.80)	(2.4)
<i>Fuel Cost</i>	<i>5,880.41</i>	<i>7,930.03</i>			<i>12,565.38</i>	<i>15,116.29</i>		

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

Comparing Q2'2020 vs Q2'2019 and 6-month of 2020 vs 6-month 2019

(1) Revenue from sales of RG decreased due to the decrease in Base Availability Credit in 2020 compared to that of 2019, as specified in the Power Purchase Agreement. In addition, the Combine Cycle Power Plant unit 3 had planned maintenance shutdown (Major Overhaul) from June 7 to July 28, 2020.

(2) Revenue from sales of RAC decreased mainly due to AUD/USD currency depreciation, compared to the same period of the previous year. In addition, Mount Emerald Wind Farm Project generated less electricity than that in the same period of the previous year due to lower wind speed.

(3) Revenue from sales of RCO increased due to the acquisition on October 1, 2019.

2.1.2 Share of profit of associates and joint ventures

Comparing Q2'2020 vs Q2'2019 and 6-month of 2020 vs 6-month 2019

The share profit of HPC decreased as HPC generated less electricity than that in the same period of the previous year. The main reason due to the Power Plant unit 3 had planned maintenance shutdown (Major Overhaul) from April to August, 2020.

2.2 Analysis of Cost and Expenses

Unit : Million baht

	Quarter 2		Increase (Decrease)	%	6-Month		Increase (Decrease)	%
	2020	2019			2020	2019		
Cost and expenses (excluding fuel costs)	1,696.30	1,265.51	430.79	34.0	3,647.17	2,484.36	1,162.81	46.8
<i>RG</i>	756.98	798.95	(41.97)	(5.3)	1,819.15	1,577.29	241.86	15.3
<i>RAC</i>	452.51	455.68	(3.17)	(0.7)	867.59	886.36	(18.77)	(2.1)
<i>RCO</i>	476.53	-	476.53	-	939.68	-	939.68	-
<i>RL</i>	10.28	10.88	(0.60)	(5.5)	20.75	20.71	0.04	0.2
Administrative expenses	465.22	480.28	(15.06)	(3.1)	875.72	791.03	84.69	10.7
(Gain) Loss on fair value adjustment of derivatives	383.14	(107.79)	490.93	455.5	33.29	(2.32)	35.61	1,534.9
Finance costs	429.21	358.72	70.49	19.7	789.65	734.26	55.39	7.5
Tax expense	189.31	215.17	(25.86)	(12.0)	340.28	515.66	(175.38)	(34.0)
Total Cost and expenses	3,163.18	2,211.89	951.29	43.0	5,686.11	4,522.99	1,163.12	25.7
<i>Fuel Cost</i>	<i>5,880.41</i>	<i>7,930.03</i>			<i>12,565.38</i>	<i>15,116.29</i>		

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

Comparing Q2'2020 vs Q2'2019

(1) Cost of sales of RG decreased due to the decrease of losses on revaluation of heavy oil and diesel oil prices from the 1st quarter of 2020 in the total amount of THB 85.62 million since the market price increased. However, operation and maintenance expenses as well as spare part expenses increased in the total amount of THB 50.85 million since the Combine Cycle Power Plant unit 3 had planned maintenance shutdown (Major Overhaul) from June 7 to July 28, 2020.

(2) Cost of sales of RCO increased due to the acquisition on October 1, 2019.

Comparing 6-month of 2020 vs 6-month 2019

(1) Cost of sales of RG increased due to the recognition of losses on revaluation of heavy oil and diesel oil prices in the total amount of THB 165.62 million since the market price decreased; while, in the six-month period of 2019, there was the decrease of losses on revaluation of diesel oil price in the amount of THB 25.56 million. In addition, operation and maintenance expenses increased in the total amount of THB 30.61 million since the Combine Cycle Power Plant unit 3 had planned maintenance shutdown (Major Overhaul) from June 7 to July 28, 2020.

(2) Cost of sales of RCO increased due to the acquisition on October 1, 2019.

2.2.2 The effect of fair value adjustment of derivatives

The Company recorded the effect on fair value adjustment of derivatives according to the adopted accounting policies for derivatives and hedge accounting. The main reason was the change in fair value adjustment of cross currency swap contract between JPY and AUD currencies to manage exposure of fluctuations in foreign exchange risk on borrowings.

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

Comparing Q2'2020 vs Q2'2019

In the 2nd quarter of 2020, the Company recorded gain on FX of THB 541.72 million. The main reason was from loan to related parties in AUD currency. As AUD currency appreciated in relative to USD currency, the asset value in AUD currency increased. In contrast, the Company recorded loss on FX of THB 223.68 million in the 2nd quarter of 2019 due to the depreciation of AUD currency in relative to USD currency, resulting in the decrease of asset value in AUD currency.

Comparing 6-month of 2020 vs 6-month 2019

In the six-month period of 2019 and 2020, the Company recorded loss on FX of THB 185.65 million and THB 81.31 million, respectively due to the depreciation of AUD currency in relative to USD currency.

3. Analysis of statement of financial position

3.1 Analysis of assets

As at June 30, 2020, the total assets were THB 105,446.18 million, increasing by THB 5,216.75 million or 5.2 percent from THB 100,229.43 million as at December 31, 2019. The details were as follows:

(Million Baht)

	Jun 30, 2020	Dec 31, 2019	Increase (Decrease)	%
Current assets	21,109.36	20,479.77	629.59	3.1
Non-current assets	84,336.82	79,749.66	4,587.16	5.8
Total Assets	105,446.18	100,229.43	5,216.75	5.2

3.1.1 Trade accounts receivable from related parties of RG increased in the amount of THB 1,121.70 million, as the electricity sales in May and June 2020 were higher than the electricity sales in November and December 2019.

3.1.2 Investments in associates and joint ventures increased in the amount of THB 2,729.02 million. The main reasons were from the share of profit contributed during the period in the total amount of THB 2,133.38 million and additional investments in the amount of THB 1,377.93 million. On the other hand, the Company recorded dividend income in the amount of THB 686.30 million.

3.1.3 Property, plant and equipment increased in the amount of THB 3,366.93 million. The main reason was assets under construction of RAC increased in the amount of AUD 170.38 million mainly due to the construction of Collector Wind Farm Project.

3.1.4 Financial lease receivables from related party decreased in the amount of THB 1,621.84 million.

3.2 Analysis of liabilities and equity

As at June 30, 2020, the total liabilities and equity were THB 105,446.18 million, increasing by THB 5,216.75 million or 5.2 percent from THB 100,229.43 million as at December 31, 2019. The details were as follows:

	(Million Baht)			
	Jun 30, 2020	Dec 31, 2019	Increase (Decrease)	%
Liabilities	46,332.34	40,815.50	5,516.84	13.5
Equity	59,113.84	59,413.93	(300.09)	(0.5)
Total Liabilities and Equity	105,446.18	100,229.43	5,216.75	5.2

3.2.1 Liabilities increased in the amount of THB 5,516.84 million, the main reasons were as follows:

(1) Short-term loan from financial institutions increased in the amount of THB 2,809.26 million. The main reason was the Company and RHIS received short-term loans from financial institutions during the period in the amount of THB 1,250 million and USD 50 million respectively.

(2) Trade accounts payable of RG increased in the amount of Baht 592 million as the power plants generated more electricity in May and June 2020 than that in November and December 2019, resulting in the increase in fuel consumption.

(3) Long-term loan from financial institutions increased in the amount of THB 1,276.97 million. The main reason was RAC received long-term loans from financial institutions during the period in the amount of AUD 55.10 million.

3.2.2 Equity decreased in the amount of THB 300.09 million. The main reasons were as follows:

(1) The profit of the six-month period of 2020 in the amount of THB 2,434.98 million

(2) The Board of Directors in the meeting no. 3/2020 on March 20, 2020 approved interim dividend payment which was paid on April 17, 2020. This resulted in the decrease in the retained earnings in the amount of THB 1,812.50 million.

(3) Other components of equity decreased in the amount of THB 899.30 million. The main reasons were, change in fair value of the investment in EDL-Generation Public Company decreased equity in the amount of THB 555.01 million, share of other comprehensive income expense of associates

and joint ventures decreased equity in the amount of THB 535.72 million, and the cash flow hedge reserve decreased equity in the amount of THB 230.77 million. However, currency translation differences increase equity in the amount of THB 444.27 million.

4. Analysis of cash flows

Cash and cash equivalents of the Company and its subsidiaries as at June 30, 2020 were THB 4,791.19 million, decreasing by THB 125.97 million from THB 4,917.16 million on December 31, 2019. The details were summarized below:

	(Million Baht)
	6-Month
Net cash from operating activities	2,775.74
Net cash used in investing activities	(4,684.36)
Net cash from in financing activities	1,673.64
Effect of exchange rate changes on cash and cash equivalents	109.01
Net cash decrease during the period	(125.97)

4.1 Net cash from operating activities increased cash flow in the amount of THB 2,775.74 million. The reason was the operating result of the six-month period of 2020 improved cash position by THB 2,506.28 million, adjusting by the change in operating assets and liabilities in the amount of THB 269.46 million.

4.2 Net cash used in investing activities decreased cash flow in the amount of THB 4,684.36 million. The main reasons were as follows:

4.2.1 RAC paid for the construction of Collector Wind Farm Project in the amount of AUD 170.38 million.

4.2.2 The Company paid for additional investment in joint ventures in the amount of THB 1,377.93 million.

4.2.3 The Company paid cash for other financial assets in the amount of Baht 441.56 million.

4.2.4 The Company received dividends from associates and joint ventures in the total amount of THB 746.40 million.

4.3 Net cash from financing activities increased cash flow in the amount of THB 1,673.64 million. The main reasons were as follows:

4.3.1 The Company and RHIS received short-term loans from financial institutions during the period in the amount of THB 1,250 million and USD 50 million, respectively.

4.3.2 RAC received long-term loans from financial institutions during the period in the amount of AUD 55.10 million.

4.3.3 The Company paid dividend to owners in the amount of THB 1,812.73 million.

4.3.4 The Company paid for interest expenses in the amount of Baht 684.35 million.

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

Ratios		Quarter 2	
		2020	2019
1) Current Ratio	(Times)	1.92	2.72
2) Profit to Total Revenue (excluded fuel costs)	(%)	14.41	49.59
3) Return on Equity **	(%)	7.97	10.21
4) Return on Assets **	(%)	6.79	8.33
5) EBITDA *	(Million THB)	1,927	3,044
6) EBITDA to Total Assets	(%)	1.84	3.01
7) Debt to Equity Ratio	(Times)	0.78	0.66
8) Debt Service Coverage Ratio	(Times)	4.12	0.75
9) Book Value per Share	(THB)	40.77	41.11
* Not included the change in lease receivable (Million THB)		874.55	437.88

** Data for 12-month period