

Management Discussion and Analysis

Financial Statements

Summary of financial positions and operating results of Samart Digital Public Company Limited and its subsidiaries are as follows:

(Unit: Million Baht)

Item	As of December 31		
	2015	2016	2017
Cash and cash equivalents	149	119	242
Account receivables – net	7,066	5,681	2,986
Inventories	863	469	128
Land, building and equipment – net	780	700	1,154
Total assets	9,994	7,974	6,385
Overdrafts and loans from financial institutions	5,661	4,730	4,048
Account payables	497	113	88
Total liabilities	6,764	5,458	5,835
Paid up capital	440	440	440
Retained earnings (Deficit)	1,535	817	(1,101)
Non-controlling interests of the subsidiaries	111	120	91
Shareholders' equity	3,230	2,516	550
Revenue from sales and services	7,730	3,366	1,334
Selling support income	28	19	1
Total revenues	7,799	3,461	1,364
Cost of sales and services	6,183	3,050	1,368
Selling and Administrative expenses include other expenses	1,360	1,067	2,223
Finance Cost	206	182	191
Net profit (loss)	37	(720)	(1,925)
Earning (loss) per share (Baht)	0.008	(0.164)	(0.440)
Cash flow from (used in) operating activities	230	759	337
Cash flow from (used in) investing activities	(80)	5	(399)
Cash flow from (used in) financing activities	(160)	(787)	186
Net increase (decrease) in cash and cash equivalents	10	(30)	123
Par value per share (Baht)	0.10	0.10	0.10
Ordinary shares outstanding (Million shares)	4,400.25	4,400.25	4,400.25
Weighted average number of ordinary shares (Million shares)	4,400.25	4,400.25	4,400.25
Book value per share (Baht)	0.73	0.57	0.13
Dividend per share (Baht)	0.015	-	-

Financial ratios of Samart Digital Public Co., Ltd. and its subsidiaries are as follows:

Financial Ratio	As of December 31		
	2015	2016	2017
LIQUIDITY RATIO			
Current ratio (Times)	1.30	1.31	0.80
Quick ratio ⁽¹⁾ (Times)	1.09	1.14	0.62
Cash turnover (Times)	0.03	0.13	0.06
Receivable turnover ratio (Times)	1.19	0.53	0.31
Average collection period (Days)	303	682	1,170
Inventory turnover ratio (Times)	3.66	4.58	4.59
Average sale period (Days)	99	79	79
Payable turnover ratio (Times)	7.41	10.01	13.60
Payment period (Days)	49	36	27
Cash conversion cycle (Days)	353	725	1,222
PROFITABILITY RATIO			
Gross profit ⁽²⁾ (%)	20.30	9.90	(2.44)
Operating profit margin ⁽³⁾ (%)	0.64	(24.77)	(181.09)
Other profit margin (%)	0.52	2.18	2.15
Operating cash flow to profitability (%)	479.24	(90.52)	(13.92)
Net profit margin (%)	0.48	(20.79)	(141.10)
Return on equity (%)	1.15	(26.09)	(95.10)
EFFICIENCY RATIO			
Return on assets (%)	0.36	(8.01)	(26.81)
Return on fixed assets (%)	31.87	(72.19)	(185.28)
Asset turnover (Times)	0.76	0.39	0.19
FINANCIAL POLICY RATIO			
Debt to equity (Times)	2.09	2.17	10.60
Interest coverage ⁽⁴⁾ (Times)	2.42	(2.63)	(10.75)
Commitment coverage ⁽⁴⁾ (Times)	0.81	(1.21)	(3.40)
Dividend payout ratio (%)	177.61	-	-

Remarks

⁽¹⁾ Quick ratio was calculated by including restricted cash deposits.

⁽²⁾ Gross profit was calculated by including sales support revenue.

⁽³⁾ Operating profit was defined as earnings before tax and non-controlling interests of the subsidiaries.

⁽⁴⁾ Earnings before interest, tax, non-controlling interests of the subsidiaries, and depreciation & amortization was used instead of net cash flows from operation.

Operation Overview

In 2017, the Company and subsidiaries reported total revenues of Baht 1,364 million, a decrease of Baht 2,097 million or 60.6% compared with 2016. This was primarily resulted from cease of i-mobile handset business and left only retail business of other brands. In addition, there was a decrease in revenues of Non-Mobile Business through both Content Business and TV Business (Live Broadcast).

Operating loss of Baht 2,417 million, increased by Baht 1,579 million or 188.2% compared with 2016 as the decline in gross profit margin together with higher other expenses which is mainly allowance for doubtful accounts. As a result, net loss was Baht 1,925 million, an increase of Baht 1,205 million from the previous year.

Results of Operation of the Company and Subsidiaries

Sales and service income including gross profit

(Unit: Million Baht)

	Mobile Business		Non-Mobile Business		Total	
	2017	2016	2017	2016	2017	2016
Sales and service income	791	2,555	543	811	1,334	3,366
Selling support income	1	19	-	-	1	19
Cost of sales and services	(832)	(2,419)	(536)	(631)	(1,368)	(3,050)
Gross profit	(40)	155	7	180	(33)	335
Selling and Administrative expenses and other expenses					(2,223)	(1,067)
Other income					29	75
Finance cost					(191)	(182)
Corporate income tax					464	127
Non-controlling interests of the subsidiaries					29	(8)
Net loss					(1,925)	(720)

Mobile Business

Revenue of Mobile Business, including selling support income, was Baht 791 million, reduced by Baht 1,764 million or 69.0% compared with 2016. This was mainly resulted from the cease of i-mobile handset business in this period. In addition, gross profit dropped by 195 million or 125.8%, related to the decrease in revenues and stock clearance.

Non-Mobile Business

Revenue of Non-Mobile Business was Baht 543 million, a decrease of Baht 268 million or 33.1% compared with 2016, mainly from the decrease in revenues of both Content Business and TV Business (Live Broadcast) compared with the previous year. Gross profit was Baht 7 million, a decrease of Baht 173 million or 96%.

Other Income

Other income was Baht 29 million, representing 2.1% of total revenues in 2017, a decrease of Baht 46 million or 61.3% compared with the previous year

Selling and Administration Expenses including Other Expenses

Selling and administration expenses including other expenses were Baht 2,223 million, an increase of Baht 1,156 million or 108.4% compared with 2016. This was primarily from allowance for doubtful accounts from Mobile Business of Baht 1,535 million for the certain receivable who have past due over than 1 year and have repayment problems whilst selling expenses decreased Baht 276 million as the declining in revenue.

Finance Cost

Finance cost was Baht 191 million, an increase of Baht 9 million or 4.7% compared with 2016, due to the increase in short term loans from related companies as higher working capital requirement during the period.

Income Tax

Income tax income were totally Baht 464 million, an increase from 2016 of Baht 337 million, corresponding to deferred tax benefit the Company had gain in 2017.

Financial Position

Assets

As of December 31, 2017, total assets were Baht 6,385 million, a considerable decrease of Baht 1,589 million or 19.9% compared with the end of 2016. This was contributed primarily by the decline in trade receivables and inventories corresponding to the cease of i-mobile handset business. The portion of trade receivables and inventories were 46.8% and 2.0% of total assets respectively.

Total non-current assets were Baht 2,139 million, an increase of 921 million or 75.6% compared with the end of 2016, representing 33.5% of total assets, in which equipment was a major component with 18.1% of total assets. Return on Asset (ROA) declined from (8.01%) to (26.81%) in 2016.

Trade Receivables

As of December 31, 2017, trade receivables were Baht 3,140 million, a significant decrease of Baht 2,785 million or 47.0% compared with the end of 2016. Allowance for doubtful accounts was provided through an estimation of uncollectible receivables, which based on the Company's collection experience, analysis of debtors, and current status of receivables outstanding at balance sheets date. [The management of the Company and its subsidiaries are in the process to follow up these debts according to the Company's dunning processes and believe that the allowance for doubtful accounts is reasonable and adequate.](#)

Inventories

As of December 31, 2017, net inventories were Baht 128 million, significantly decreased by Baht 341 million or 72.8% compared with the end of 2016. This was mainly contributed by the decline in finished goods and supplies of Mobile Business as the cease of i-mobile handset business in this year. An allowance for obsolescence has complied with the Company's policy. The Company and subsidiaries recorded an increase of 70 million for the allowance during 2017. The average sales period maintained at 79 days.

Other Current Assets

As of December 31, 2017, other current assets were Baht 735 million, an increase of Baht 494 million or 204.3% compared with the end of 2016, mainly from the increase in advance for purchase of inventories for new projects.

Non-Current Assets

As of December 31, 2017, non-current assets were Baht 2,319 million, increased by Baht 921 million or 75.6% from the end of 2016. This was mainly contributed by the increase in fixed assets which are mainly digital trunked radio project.

Liquidity

As of December 31, 2017, cash and cash equivalents were Baht 242 million, an increase of Baht 123 million or 103.7% compared with the end of 2017. Sources and uses of fund are as follows:

- Net cash flows from operating activities of Baht 337 million was mainly attributed to the decline in trade receivables and inventories corresponding to the cease of i-mobile headset business and trade receivables repayment.
- Net cash flows use in investing activities of Baht 399 million was mainly attributed to given the purchase of equipment to support the Company's business expansion in 2018.
- Net cash flows from financing activities of Baht 186 million was mainly attributed to drawdown of short term loans from related companies.

Compared with 2016, the Company's liquidity ratio, quick ratio, and cash ratio declined from 1.31 times to 0.80 times, from 1.14 times to 0.62 times, and from 0.13 times to 0.06 times respectively.

Sources of Funds

As of December 31, 2017, total shareholders' equity was Baht 550 million, a decrease of Baht 1,966 million or 78.1% compared with the end of 2016. Accordingly, net loss in 2017 was Baht 1,925 million.

Total liabilities as of December 31, 2017 were Baht 5,835 million, increased Baht 377 million or 6.9% compared with the end of 2016. Total liabilities consist of current liabilities of Baht 5,336 million, and non-current liabilities of Baht 499 million, representing 83.6% and 7.8% of total assets respectively. Major components are as follows:

- Bank overdrafts and loans from financial institutions were totally Baht 4,048 million, representing 69.4% of total liabilities or 63.4% of total assets, a considerable decrease of Baht 682 million or 14.4% compared with the end of 2016.
- Trade payables and other payables were Baht 405 million, representing 6.9% of total liabilities or 6.3% of total assets, decreased by Baht 92 million or 18.5% compared with the end of 2016.
- Short term loans were Baht 1,332 million, representing 22.8% of total liabilities or 20.9% of total assets, increased by Baht 1,169 or 719.1% compared with the end of 2016.

Regarding above liabilities and shareholders' equity, the Company's debt to equity ratio increased from 2.17 times to 10.60 times in 2017.