

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		
	2016	2017	2018
Cash and cash equivalents	119	242	374
Account receivables – net	5,681	2,986	1,489
Inventories	469	128	0.2
Land, building and equipment – net	700	1,154	2,558
Total assets	7,974	6,385	5,926
Overdrafts and loans from financial institutions	4,730	4,048	3,946
Account payables	113	88	19
Total liabilities	5,458	5,835	4,909
Paid up capital	440	440	1,132
Retained earnings (Deficit)	817	(1,101)	(2,690)
Non-controlling interests of the subsidiaries	120	91	92
Shareholders' equity	2,516	550	1,017
Revenue from sales and services	3,366	1,334	743
Selling support income	19	1	2
Total revenues	3,461	1,364	770
Cost of sales and services	3,050	1,368	726
Selling and Administrative expenses include other expenses	1,067	2,223	1,193
Finance Cost	182	191	222
Net profit (loss)	(720)	(1,925)	(1,596)
Earning (loss) per share (Baht)	(0.164)	(0.440)	(0.185)
Cash flow from (used in) operating activities	759	337	487
Cash flow from (used in) investing activities	5	(399)	(1,003)
Cash flow from (used in) financing activities	(787)	186	647
Net increase (decrease) in cash and cash equivalents	(30)	123	131
Par value per share (Baht)	0.10	0.10	0.10
Ordinary shares outstanding (Million shares)	4,400.25	4,400.25	11,324.42
Weighted average number of ordinary shares (Million shares)	4,400.25	4,400.25	8,613.84
Book value per share (Baht)	0.57	0.13	0.09
Dividend per share (Baht)	-	-	-

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

Financial Ratio	As of December 31		
	2016	2017	2018
LIQUIDITY RATIO			
Current ratio (Times)	1.31	0.80	0.63
Quick ratio ⁽¹⁾ (Times)	1.14	0.62	0.47
Cash turnover (Times)	0.13	0.06	0.10
Receivable turnover ratio (Times)	0.53	0.31	0.33
Average collection period (Days)	682	1,170	1,084
Inventory turnover ratio (Times)	4.58	4.59	11.36
Average sale period (Days)	79	79	32
Payable turnover ratio (Times)	10.01	13.60	13.45
Payment period (Days)	36	27	27
Cash conversion cycle (Days)	725	1,222	1,089
PROFITABILITY RATIO			
Gross profit ⁽²⁾ (%)	9.90	(2.44)	2.62
Operating profit margin ⁽³⁾ (%)	(24.77)	(181.09)	(183.88)
Other profit margin (%)	2.18	2.15	3.26
Operating cash flow to profitability (%)	(90.52)	(13.92)	(35.58)
Net profit margin (%)	(20.79)	(141.10)	(207.20)
Return on equity (%)	(26.09)	(95.10)	(230.56)
EFFICIENCY RATIO			
Return on assets (%)	(8.01)	(26.81)	(25.92)
Return on fixed assets (%)	(72.19)	(185.28)	(74.13)
Asset turnover (Times)	0.39	0.19	0.13
FINANCIAL POLICY RATIO			
Debt to equity (Times)	2.17	10.60	4.83
Interest coverage ⁽⁴⁾ (Times)	(2.63)	(10.75)	(4.22)
Commitment coverage ⁽⁴⁾ (Times)	(1.21)	(3.40)	(0.30)
Dividend payout ratio (%)	-	-	-

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 2018, the Company and subsidiaries reported total revenues of Baht 741 million, a decrease of Baht 590 million or 44.2% compared with 2017. This was primarily resulted from stop of mobile business unit. In addition, there was a decrease in revenues of Non-Mobile Business through Mobile content Business.

Operating loss of Baht 1,370 million, decreased by Baht 1,048 million or 43.3% compared with 2017 as the incline in gross profit margin together with lower of selling expenses and also other expenses which is mainly allowance for doubtful accounts. As a result, net loss was Baht 1,596 million, a decrease of Baht 330 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	
	2018	2017	2018	2017	2018	2017
Sales and service income	254	791	487	543	741	1,334
Selling support income	2	1	-	-	2	1
Cost of sales and services	(318)	(832)	(407)	(536)	(725)	(1,368)
Gross profit	(58)	(40)	80	7	18	(33)
Selling and Administrative expenses and other expenses					(1,193)	(2,223)
Other income					27	29
Finance cost					(222)	(191)
Corporate income tax					(226)	464
Non-controlling interests of the subsidiaries					(1)	29
Net loss					(1,597)	(1,925)

Mobile Business

Revenue of Mobile Business, including selling support income, was Baht 256 million, reduced by Baht 536 million or 67.7% compared with 2017. This was mainly resulted from the stop of mobile business in this period. In addition, gross profit dropped by 21 million or 51.3%, related to the decrease in revenues and stock clearance.

Non-Mobile Business

Revenue of Non-Mobile Business was Baht 487 million, a decrease of Baht 56 million or 10.3% compared with 2017, mainly from the decrease in revenues of both Mobile content business compared with the previous year. Gross profit was Baht 80 million, a increase of Baht 73 million

Other Income

Other income was Baht 25 million, representing 3.3% of total revenues in 2018, a decrease of Baht 4 million or 14.5% compared with the previous year

Selling and Administration Expenses including Other Expenses

Selling and administration expenses including other expenses were Baht 1,193 million, an decrease of Baht 1,030 million or 46.3% compared with 2017. This was primarily from allowance for doubtful accounts Baht 869 million for the certain receivable that have repayment problems whilst selling expenses decreased Baht 207 million as the declining in revenue

Finance Cost

Finance cost was Baht 222 million, an increase of Baht 30 million or 15.9% compared with 2017, due to the increase in interest rate.

Income Tax

Income tax expenses were totally Baht 226 million, an increase from 2017 of Baht 690 million, corresponding to deferred tax asset reversal of temporary differences in 2018.

Financial Position

Assets

As of December 31, 2018, total assets were Baht 5,927 million, a considerable decrease of Baht 459 million or 7.2% compared with the end of 2017. This was contributed primarily by the decline in trade receivables and inventories corresponding to the stop mobile business unit. The portion of trade receivables were 25.8% of total assets.

Total non-current assets were Baht 3,279 million, an increase of 1,139 million or 53.3% compared with the end of 2016, representing 55.3% of total assets, in which equipment was a major component with 38.1% of total assets which mainly are assets under installation of digital trunked radio system project (DTRS). Return on Asset (ROA) inclined from (26.81%) to (25.92%) in 2016.

Trade Receivables

As of December 31, 2018, trade receivables were Baht 1,530 million, a significant decrease of Baht 1,610 million or 51.3% compared with the end of 2017. 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 believe that the allowance for doubtful debts is reasonable and adequate.

Inventories

As of December 31, 2018, net inventories were Baht 0.2 million, significantly decreased by Baht 127 million or 99.8% compared with the end of 2017. This was mainly contributed by the decline in finished goods and supplies of Mobile Business as the stop of Mobile Business in this year. An allowance for obsolescence has complied with the Company's policy. The Company and subsidiaries recorded a reversal of 16 million for the allowance during 2018. The average sales period is 32 days.

Other Current Assets

As of December 31, 2018, other current assets were Baht 742 million, an increase of Baht 7 million or 0.9% compared with the end of 2017, the outstanding balances are mainly advance for purchase of inventories for new projects.

Non-Current Assets

As of December 31, 2018, non-current assets were Baht 3,279 million, increased by Baht 1,139 million or 53.3% from the end of 2017. This was mainly contributed by the increase in assets under installation which are mainly digital trunked radio project.

Liquidity

As of December 31, 2018, cash and cash equivalents were Baht 374 million, an increase of Baht 131 million or 54.3% compared with the end of 2017. Sources and uses of fund are as follows:

- Net cash flows from operating activities of Baht 487 million was mainly attributed to the decline in trade receivables and inventories corresponding to trade receivables repayment and stop of Mobile Business.
- Net cash flows use in investing activities of Baht 1,003 million was mainly attributed to given the purchase of equipment of digital trunked radio system project.
- Net cash flows from financing activities of Baht 647million was mainly attributed to capital injection during the year and repayment of short term loans from related companies.

Compared with 2017, the Company's liquidity ratio, quick ratio, declined from 0.80 times to 0.63 times, from 0.62 times to 0.47 times, respectively, while cash ratio increased from 0.06 times to 0.10 times.

Sources of Funds

As of December 31, 2018, total shareholders' equity was Baht 1,017 million, an increase of Baht 467 million or 84.8% compared with the end of 2017.

Total liabilities as of December 31, 2018 were Baht 4,909 million, decreased Baht 926 million or 15.9% compared with the end of 2017. Total liabilities consist of current liabilities of Baht 4,214 million, and non-current liabilities of Baht 695 million, representing 71.1% and 11.7% of total assets respectively. Major components are as follows:

- Bank overdrafts and loans from financial institutions were totally Baht 3,946 million, representing 96.5% of total liabilities or 66.6% of total assets, a considerable decrease of Baht 102 million or 2.5% compared with the end of 2017.
- Trade payables and other payables were Baht 905 million, representing 18.4% of total liabilities or 15.3% of total assets, increased by Baht 500 million or 123.5% compared with the end of 2017.
- Short term loans were Baht 22 million, representing 0.5% of total liabilities or 0.4% of total assets, decreased by Baht 1,310 or 98.3% compared with the end of 2017.

Regarding above liabilities and shareholders' equity, the Company's debt to equity ratio decreased from 10.60 times to 4.83 times in 2018.