



Selic Corp PCL

Management Discussion and Analysis Q2/2020

EXECUTIVE SUMMARY

The effect of COVID-19 pandemic had fully developed in Q2/2020. The fully lockdown and varying degree of restrictions within this quarter has caused significant economic impact both in Thailand and other countries. The effect resulting in the performance from the challenges on the export front together with the slowdown in demands for product consumption especially of those non-essential products which led to a decline in purchases.

The gradually lifting of the restriction in the end of May helped revive the economy to slowly resume. However it appears that the overall purchase spending remained weak domestically. On the international front, many of Selic's export markets were also in lockdown due to COVID19 and this has resulted in a significant drop in our export sales in this quarter.

With this situation, Selic put our focus and emphasize in managing cost and expenses to sustain profit.

OPERATIONAL SUMMARY

- In Q2/2020 Selic had direct impact from the COVID-19 restrictions / measures which caused negative impact to sales performance.
- However Selic were able to maintain profitability. Net profit of the first 6 months was THB 38.86 Million Baht (-14% YoY from the decline of revenue of 14.2% YoY) with EBITDA of THB 91.93 MB which dropped -9.6%YoY.
- For the period of 3 months, Net profit was THB 16.40 M, -23% YoY impacted by 21% reduction in sales YoY.
- The decline of sales was resulted by the impacts of various governmental measures and policies in Thailand and In addition international lockdowns also caused decline in export activities.
 - Total consolidated revenue at THB 283.48 M (-20% YoY and -14% QoQ)
 - Revenue from adhesive business was THB 151.24 M (-20.4% YoY, -28.8% QoQ)
 - Revenue from self-adhesive label was THB 180.32 M (-12.2% YoY, -5.8% QoQ)
- EBITDA down 14% from Q1 and 15.6% from last year.

Q2/2020	(3-Month)					(6-Month)		
Unit : Million Baht	Q2/2020	Q1/2020	Q2/2019	%QoQ	%YoY	H1 2020	H1 2019	(+/-)%
Total revenue	283.48	329.63	353.32	(14.0%)	(19.8%)	612.35	713.69	(14.2%)
Sales revenue	275.93	327.68	349.18	(15.8%)	(21.0%)	603.61	706.60	(14.6%)
Gross profit (exclude others)	67.08	83.34	85.85	(19.5%)	(21.9%)	150.42	174.27	(13.7%)
EBITDA	42.50	49.44	50.36	(14.0%)	(15.6%)	91.93	101.65	(9.6%)
Net profit	16.40	22.46	21.29	(27.0%)	(23.0%)	38.86	45.21	(14.0%)



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OPERATIONAL & FINANCIAL SUMMARY

Revenue

In Q2/2020, Selic reported a total revenue of THB 283.48 M, decreased 14% QoQ or 20% YoY. Revenue from sales was THB 275.93 M, decreased 15.8% QoQ or 21% YoY (same as combined income).

Income Structure: Sales

Selic's income is generated by two businesses including adhesive (38%) and self-adhesive label (68%).



The proportion of income in this quarter has changed as adhesive segment has been impacted more than self-adhesive segment in this quarter.

Adhesive Business

The total revenue of the adhesive business in Q2/2020 accounted for THB 151.24 M, decreased 20.4% YoY or 28.8% QoQ.

*Revenue from Q1/2020 comprised of a one-time transaction of dividends pay-out by PMC Labeling Materials.

Sales revenue was at THB 137.56 M, down 23.5% YoY and down 11.6% QoQ. The drop was due to reduced sales activities of solvent and hotmelt adhesives.

- Sales of solvent adhesives dropped 46% YoY or 38% QoQ
- Sales of hotmelt adhesives fell 18% YoY or 20% QoQ

The negative impact to adhesive sales mostly was mostly impact from COVID-19 especially from non-essential product industries such as footwear, automotive, furniture and non-vital survival goods consumer' behavior changed to adjust to the situation.

By Product Group (Million Baht)	Q2/2020	Q1/2020	Q2/2019	%QoQ	%YoY
Solvent	40.84	65.42	76.07	(38%)	(46%)
Hot Melt	49.77	62.21	61.03	(20%)	(18%)
Water Based	44.15	25.08	40.32	76%	9%
Others	2.80	2.91	2.42	(4%)	16%



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The reduced sales income has been caused by the lockdown in many countries, including our key markets, which forced our export activities minimal momentarily. In Q2, our export sales fell 32.9% YoY or 20.4% QoQ. Similarly, our domestic sales went down 18.1% Yoy or 6.7%QoQ for the reasons mentioned earlier.

By Destination (Million Baht)	Q2/2020	Q1/2020	Q2/2019	%QoQ	%YoY
Domestic sales	93.49	100.25	114.14	(6.7%)	(18.1%)
International sales	44.07	55.37	65.70	(20.4%)	(32.9%)

Selic was able to make profit despite the negative impact in export and decline in some end market sectors. Gross profit margin is 24% which is higher than last year in which reported GP margin at 22.2% resulting in gross profit at THB 25.96 M (+2.6% YoY but -66.4%* QoQ).

*Q1/2020 comprised of a one-time transaction of dividends pay-out by PMC Labeling Materials.

Net profit for adhesive segment in this quarter reported at THB 9.21 M increased from THB 5.95 M or 54.8% of the same quarter in previous year.

Profitability in this quarter mainly came from our effort and focus in cost management and expense control measures we have put in place during this challenging time.

Self-adhesive Business

The main focus of this segment continued to improve production efficiency and quality control system to pose as the main foundations for future market expansion plan.

The total revenue of self-adhesive reported at THB 180.32 M, -12.2% YoY but -5.8% QoQ, while the sales revenue was THB 171.13 M, -11.7% YoY or -6.7% QoQ, due to a decline in export sales and sales of paper labels. On the other hand the sales of plastic film labels grew 4%YoY.

By product type (Million Baht)	Q2/2020	Q1/2020	Q2/2019	%QoQ	%YoY
Paper	116.50	126.03	140.63	(8%)	(17%)
Film	53.76	55.76	51.65	(3.6%)	4%
Others	0.87	1.68	1.63	(48%)	(47%)
Total	171.13	183.47	193.90	-7%	-12%

Cost of Sales

The cost of sales from consolidated financial statement for this quarter was THB 208.85 M (-20.7% YoY or -14.5% QoQ) which accounted for 75.7% of the total revenue which is similar to Q1/2020, resulting from effective negotiations with our key suppliers.

Selling and Administrative Expenses

Selling expenses was THB 6.40 M, down 25.2% YoY or 13.4% QoQ. The administrative expenses was THB 40.23 M which is 7.1% lower than the previous year and 2.7% lower than the previous quarter. Partially came from better cost and expense management.

EBITDA & NET PROFIT

In this quarter, EBITDA was THB 42.50 M, -15.6% YoY or -14.0% QoQ. EBITDA margin was 15% remain the same proportion from last quarter but increase from last year EBITDA margin at 14.2%. The net profit from the consolidated financial reported at THB 16.40 M, decreased 23.0% YoY and 27.9% QoQ with net profit margin of 5.8%.

CONSOLIDATED FS Q2/2020

Q2/2020	(3-Month)					(6-Month)		
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Total revenue	283.48	329.63	353.32	(14.0%)	(19.8%)	612.35	713.69	(14.2%)
Sales	275.93	327.68	349.18	(15.8%)	(21.0%)	603.61	706.60	(14.6%)
Cost of sales	208.85	244.33	263.34	(14.5%)	(20.7%)	453.18	532.33	(14.9%)
Gross profit (excluding others)	67.08	83.34	85.85	(19.5%)	(21.9%)	150.42	174.27	(13.7%)
Selling expense	6.40	7.41	8.57	(13.5%)	(25.2%)	94.61	103.82	(8.9%)
Administrative expense	40.23	41.34	43.30	(2.7%)	(7.1%)			
EBITDA	42.50	49.44	50.36	(14.0%)	(15.6%)	91.93	101.65	(9.6%)
Depreciation	14.49	12.88	12.25	12.5%	18.4%	27.38	24.10	13.6%
EBIT	28.00	36.56	38.11	(23.4%)	(26.5%)	64.56	77.54	(16.7%)
Financial cost	8.18	9.43	10.77	(13.2%)	(24.1%)	17.60	21.16	(16.8%)
EBT	19.82	27.13	27.34	(26.9%)	(27.5%)	46.95	56.38	(16.7%)
Tax	3.43	4.67	6.05	(26.6%)	(43.4%)	8.09	11.17	(27.5%)
Net Profit (Loss)	16.40	22.46	21.29	(27.0%)	(23.0%)	38.86	45.21	(14.0%)



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2020 BUSINESS OUTLOOK

Impact of COVID-19 to revenue

Since the beginning of 2020, the COVID-19 pandemic has caused major economic disruptions and uncertainties around the world. Although the situation in Thailand has shown recovery sign and economic activities began to resume, the business outlook remain uncertain due to the shrinkage of export activities affected by the global lockdown, reduced spending power and decline in tourism. These factors have negative impact on most industries which also affect Selic's sales revenue.

Therefore, Selic responses to the situation is to adjust the way we operate our business. From marketing and sales point of view, we would focus in market share expansion in specific industries with positive outlook such as Food and Beverage, Consumer and Household Products, Packaging and Logistics. In addition, anticipating the market comeback for other key industries during the second half of 2020.

Continuous Management of Costs and Expenses

To sustain profitability and cash flow, Selic put focus on cost optimization and operation efficiency continuously. Cost optimization includes increase supply chain management. Expense management both on selling and administrative expense by cut off non-essential budget and increase internal resources efficiency.

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