



# บริษัท ไทยเซ็นทรัลเคมี จำกัด (มหาชน)

## THAI CENTRAL CHEMICAL PUBLIC COMPANY LIMITED

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(Translation)

No. 011/2019

22 February 2019

Subject Clarification of the year 2019 performance

To President  
The Stock Exchange of Thailand

Enclosure Management Analysis and Discussion (MD&A)

Referred to rules and regulations of the SEC providing that a listed company shall clarify reason in case of difference between company including its subsidiaries' performance of the current year and that of the corresponding period of the previous year exceeding 20%, the Company would like to clarify as follows.

Performance of the Company including its subsidiaries of 2018 shows the Profit Attributable to Owners of the parent at the amount of THB 1,331 million, decreasing by 31% compared with the corresponding period of the previous year which showed the amount of THB 1,932 million.

The reason of such result is shown in the Management Analysis and Discussion as in the attachment.

Please be informed accordingly.

Sincerely yours,

Mr. Yoshihiro Tamura  
President & CEO

## Management Discussion and Analysis (MD&A)

### Business Overview

The Company reported in the Consolidated Financial Statements of 2018 from January 1 to December 31, 2018 that the Company achieved Profit Attributable to Owners of the parent of Baht 1,331 million, a decrease of 31% or Baht 601 million from the previous year of Baht 1,932 million. The major factors attributed to the decline of profit were the rising of raw material cost and continuously receding demand for chemical fertilizer as the purchasing power of farmers remained stagnant.

As a result, Earnings per Share for the year 2018 was 2.28 Baht, decreased from 3.30 Baht in 2017.

### Business Segment Information

The Company's main business is to import, manufacture and distribute various formulas of chemical fertilizer. The Company has 3 subsidiaries, 1) TCCC Myanmar Ltd., an importer and distributor of chemical fertilizer in Myanmar, 2) MC Agro-Chemicals Co., Ltd., an importer and distributor of herbicide, fungicide, and insecticide for agriculture, and 3) N.I.M. Co., Ltd., an owner and operator of the tank terminal for storage of liquid chemicals for industrial uses. The Company performance is analyzed in segment of Core Business and Other Businesses.

- **Core Business (Chemical Fertilizers)**

Thailand's fertilizer consumption in 2018 was significantly dropped from the previous year. As the prices of major agricultural products including para rubber, palm oil, pineapple and sugarcane had all been decreased, the farmers were less willing to start cultivation, or of necessity, do so with less fertilizer application. Moreover, the inadequate rainfalls during the major rice farming season in the Northeast region lowered the overall chemical fertilizer demand in 2018 compared to the previous year.

Given this situation, the Company adjusted the strategy to make up the missing demand by exporting products to neighboring countries such as Cambodia, Laos and Myanmar. In addition, as many fruit prices increased, the Company tried to launch several fertilizer formulas that can serve the increasing demand in this segment.

The global fertilizer raw material market was in the strong uptrend as a result from strengthening demands and tight supplies in the second half of 2018. Along with the Baht

depreciation during the same period of the year, these two factors resulted in higher raw material cost.

Under this circumstance, the Company strictly adhered to the management policy to maintain the inventory at the optimal level.

- **Other Businesses**

Sales Revenue and Service Income of the two non-fertilizer business subsidiaries was insignificant at 4.5% of the total in 2018.

Sales Revenue and Service Income of MC Agro-Chemicals decreased by 14% from the previous year. The decrease was resulted from more stringent pesticide import regulation and less demand amidst the low purchasing power of farmers.

Service Income of N.I.M. increased by 4% from the previous year. The increase was due to better management of liquid chemical tanks for rent.

### **Policy and Strategy**

The Company adheres to the main strategies of; 1) stably supplying high quality products for farmers to achieve high yield and good quality in farming, 2) providing best services to the customers to meet their requirements, and 3) controlling production and procurement to maintain optimal inventory, so as to generate highest income from the operation. The Company also prioritizes the importance of safety and environment protection in manufacturing. As a part of the Company's CSR policy, the Company aims at being a good corporate citizen in the local communities.

In order to achieve the sustainable growth, the Company determines to utilize its technology and manufacturing facilities to create distinctive values on the products, and to develop fertilizer market in the neighboring countries to further expand the export business.

### **Accounting Policies**

The Company's financial year is of the period from January 1 until December 31 of every year. The financial statements have been prepared in accordance with Thai Accounting Standards ("TAS") No.1 (Revised 2017) and the Regulation of the Stock Exchange of Thailand. The financial statements have been prepared under the measurement basis of historical cost. The significant accounting policies is to recognize revenue from sales when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. For inventories, it is stated at the lower of cost or net realizable value. Cost is determined on a weighted average method except for a subsidiary, MC Agro-Chemicals Company Limited, which cost is determined on a first-in, first-out method.

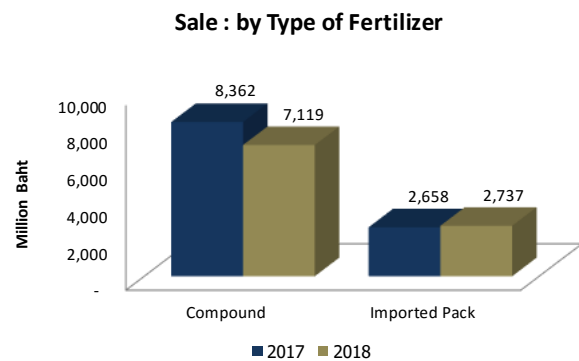
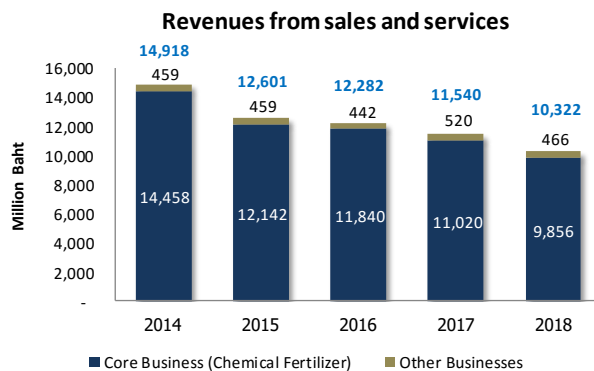
## Results of Operations

### 1. Overview of the Operation

Statements of Profit or Loss and Other Comprehensive Income as of December 31, 2018 compares with as of December 31, 2017.

Unit : Million Baht	Year		Change
	2017	2018	%
Revenues from Sales and Services	11,540	10,322	(11)
Cost of Goods Sold and Rendering of Services	(8,540)	(8,036)	(6)
Gross Profit	3,000	2,286	(24)
Other Income	113	135	19
Profit Before Expenses	3,113	2,421	(22)
Selling and Administration Expenses	(679)	(715)	5
Profit Before Finance Costs and Income Tax Expense	2,434	1,706	(30)
Finance Costs	(3)	(2)	(33)
Profit Before Income Tax	2,431	1,704	(30)
Income Tax Expense	(484)	(354)	(27)
Profit for the Year	1,947	1,350	(31)
Profit Attributable to Owners of Parent	1,932	1,331	(31)
Total Comprehensive Income Attributable to Owner of Parent	1,892	1,330	(30)

### 2. Revenues from Sales and Services



- Core Business (Chemical Fertilizer)

In 2018, the Company generated revenues from sales of chemical fertilizer in total Baht 9,856 million, decreased by Baht 1,164 million or 11% from 2017 (Baht 11,020 million). The decrease in sales was resulted from the lower demand of chemical fertilizer as several agricultural product prices were dropped and there was drought in some areas.

The Company's chemical fertilizers can be categorized into 2 types: Compound fertilizer manufactured by the Company and Imported-Pack fertilizer. The income from selling Compound fertilizers in 2018 was in the amount of Baht 7,119 million, decreased by Baht 1,243 million or 15% from 2017. Meanwhile, the income from selling Imported-Pack fertilizer was in the amount of Baht 2,737 million, increased by Baht 79 million or 3% from 2017.

- **Income from the Other Businesses**

In 2018, income from the other businesses was from selling pesticides used in agriculture, and servicing tank rental and terminal operation for the storage of liquid chemicals used in various industries, which was in the amount of Baht 466 million, decreased by Baht 54 million or 10% compared to Baht 520 million in 2017.

### 3. Cost of Goods Sold and Services

Cost of Goods Sold and Services in 2018 showed at Baht 8,036 million, decreased by Baht 504 million or 6% from 2017 (Baht 8,540 million). The higher raw material price and Baht depreciation in the second half of the year had pushed upward pressure to the Cost of Goods Sold in 2018. As a result, the overall Cost of Goods Sold decreased relatively less compared with the reduction in Sales Revenue in 2018.

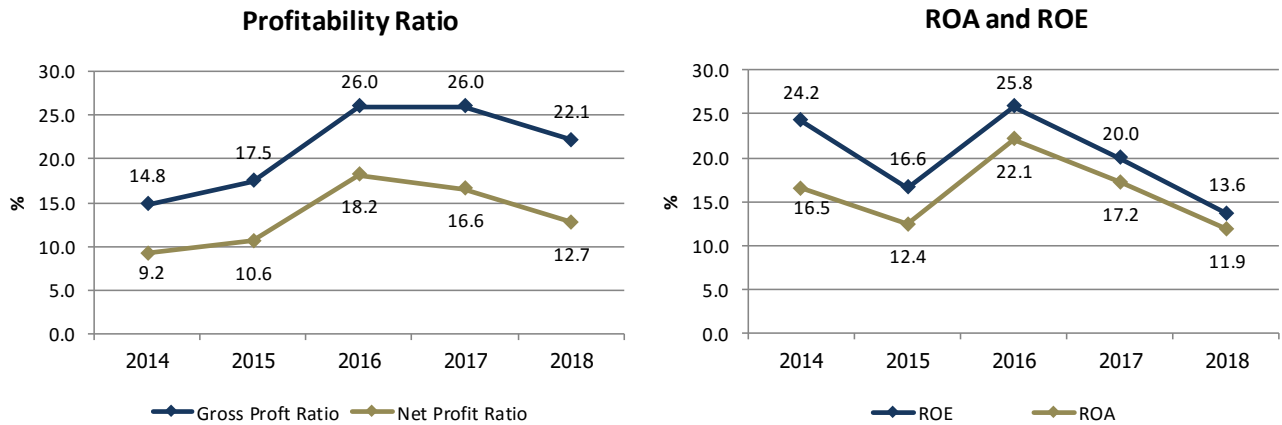
### 4. Selling and Administration Expenses

The Company bore the Selling and Administration Expenses at Baht 715 million, increased by Baht 36 million or 5% from 2017 (Baht 679 million). The slight increase was due to more spending on marketing and sales promotion campaign to keep the Company's competitiveness over others in the ever higher competitive fertilizer market.

### 5. Profitability Analysis

Description	Year		Change
	2017	2018	%
Gross Profit (Million Baht)	3,000	2,286	(24)
Profit Attributable to Owners of parent (Million Baht)	1,932	1,331	(31)
Earning Per Share (Baht)	3.30	2.28	(31)

In 2018, The Company's Gross Profit showed at Baht 2,286 million, decreased by Baht 714 million or 24% from 2017 (Baht 3,000 million). The decrease of Gross Profit amount was due to the lower demand for chemical fertilizer and higher raw material cost. Meanwhile, the Gross Profit Ratio in 2018 decreased from 26.0% to 22.1% since the proportion of Cost of Goods Sold had increased from the higher raw material price.



For Profit Attributable to Owners of parent of 2018, the Company earned Baht 1,331 million, decreased by Baht 601 million or 31% from 2017 (Baht 1,932 million). As a result, Earnings per share decreased 1.02 Baht per share or 31%, from 3.30 Baht in 2017 to 2.28 Baht in 2018.

The Return on Equity (ROE) in 2018 was 13.6%, lower than 20.0% in 2017. The Return on Asset (ROA) in 2018 was 11.9%, lower than 17.2% in 2017. The Company endeavored to maintain the capability to make profit for shareholders and tried to utilize all of the existing assets to achieve the best performance.

## Analysis of Liquidity and Capital Resources

### 1. Overview of Financial Statements

#### Main Components of Statement of Financial Position (Consolidated)

Description	December 31, 2017		December 31, 2018	
	Million Baht	Percentage to Total Assets	Million Baht	Percentage to Total Assets
Current Assets	8,491	76	8,459	76
Non-current Assets	2,707	24	2,668	24
<b>Total Assets</b>	<b>11,198</b>	<b>100</b>	<b>11,127</b>	<b>100</b>
Current Liabilities	1,184	11	936	9
Non-current Liabilities	253	2	265	2
Shareholders' Equity	9,761	87	9,926	89
<b>Total Liabilities and Shareholders' Equity</b>	<b>11,198</b>	<b>100</b>	<b>11,127</b>	<b>100</b>

## 2. Assets

As of December 31, 2018, the Company's Total Assets showed at Baht 11,127 million decreased by Baht 71 million or less than 1% from the end of 2017. Details are shown in the table below:

Description	December 31, 2017 Million Baht	December 31, 2018 Million Baht	Change %
Cash and Cash Equivalents	4,680	5,517	18
Current Investments	973	175	(82)
Trade and other Current Receivables	795	419	(47)
Inventories	2,042	2,347	15
Total Assets	11,198	11,127	(1)

Cash and Cash Equivalents increased by Baht 837 million or 18% compared to the previous year. On the other hand, Current Investments decreased by Baht 798 million or 82% compared to the previous year. When consider Cash and Cash Equivalents and Current Investments altogether at the end of 2018, they did not significantly change much from at the end of 2017. Meanwhile, Trade and other Current Receivables decreased by 47% as the Company tried to better manage cash collection. For the Inventories, it increased by 15% compared to the previous year as the demand did not meet the expected sales.

### Investments Goodwill and Amortization.

The main intangible asset is Right for use of trademarks. The Company engaged an independent appraiser to determine the fair value of the right to use the trademarks referred to above in accordance with the Notification of the Stock Exchange Commission dated April 30, 2004 regarding the opinion for accounting treatment for intangible assets. According to the reports of the independent appraiser dated January 21, 2019 and January 8, 2018, the appraisal values of the fair value of such right as at January 2, 2019 and December 26, 2017, respectively, are higher than the carrying values.

For the year ended December 31, 2018 and 2017, sale under these trademarks were approximately 97% and 98% of the Company's total revenue from sales, respectively.

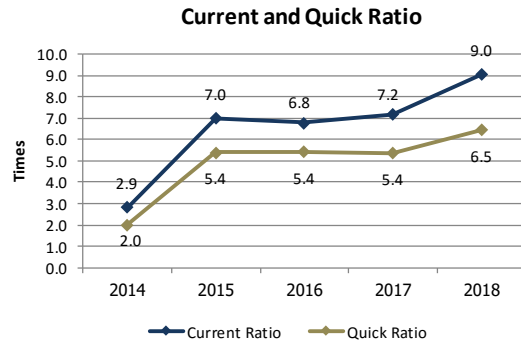
## 3. Liabilities and Equity

- On December 31, 2018, the Company had Total Liabilities at Baht 1,201 million, decreased by Baht 236 million or 16% from the end of 2017.
- On December 31, 2018, the Company had Total Equity at Baht 9,926 million, increased by Baht 165 million or 2% from the end of 2017.

#### 4. Liquidity and Cash Flows

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The Current Ratio was improved from 7.2 times at the end of 2017 to 9.0 times at the end of 2018. Meanwhile, the Quick Ratio increased to 6.5 at the end of 2018 from 5.4 at the end of 2017. These ratios were significantly better as the Company tried to maintain the Current Assets and liquidity to be at the optimal level and strived to manage the Current Liabilities more efficiently.



The Net Cash Flow provided by operating activities of 2018 was Baht 1,360 million, decreased by Baht 176 million or 11% from 2017 (Baht 1,536 million). Meanwhile, the Net Cash Flow used in financing activities in 2018 was Baht 1,165 million, decreased by Baht 726 million or 38% from 2017 (Baht 1,891 million). Net Cash Flow provided by investing activities was Baht 644 million, while in 2017 the Company used Cash Flow in investing activities for the total of Baht 1,037 million.

#### 5. Commitment and Contingent Liabilities and Out Balance Sheet

5.1 The Company has capital commitments for capital expenditure as at December 31, 2018 and 2017, of Baht 37.29 million and Baht 63.63 million, respectively.

A foreign subsidiary has capital commitment for capital expenditure as at December 31, 2018 and 2017, of USD 0.01 million (or equivalent Baht 0.34 million) and USD 0.31 million (or equivalent Baht 10.21 million), respectively.

5.2 As at December 31, the Company has leased office buildings, warehouse, vehicles and office equipment under operating lease agreements. The future lease payments are summarized as follows:

	Consolidated		Separate	
	Financial Statements	Financial Statements	Financial Statements	Financial Statements
	2018	2017	2018	2017
Within 1 year	39,520,048	39,808,755	29,975,693	33,534,420
1 - 5 years	25,165,112	26,706,206	25,049,612	23,712,458
	<u>64,685,160</u>	<u>66,514,961</u>	<u>55,025,305</u>	<u>57,246,878</u>

Unit : Baht

For the years ended December 31, 2018 and 2017, the Company recognized rental fees from operating lease agreements of Baht 57.71 million and Baht 46.56 million in the consolidated financial statements, respectively, and for the separate financial statements of Baht 41.57 million and Baht 42.33 million, respectively.



5.3 The Company has commitments with banks for letters of guarantee of issued as at December 31, 2018 and 2017 of Baht 8.66 million. Certain subsidiaries have commitment with banks for letters of guarantee issued in the amount of Baht 0.18 million as at December 31, 2018 and 2017.

5.4 As at December 31, 2018, the Company has commitment with a bank regarding the outstanding letters of credit amounting to USD 1.62 million (or equivalent to Baht 52.82 million).

As at December 31, 2017, the Company has commitment with a bank regarding the outstanding letters of credit amounting to USD 10.30 million and EUR 0.05 million (or equivalent to Baht 340.42 million).

## 5.5 Significant Agreements

### 5.5.1 Technical assistance agreement

The Company has a technical assistance agreement with a company in Japan. The Company is obligated to pay a basic retaining fee of USD 50,000 per annum. The agreement is in effect for a period of one year and shall be automatically renewed on a yearly basis unless either party expresses its intention not to renew the agreement by written notice to other party at least three months before the expiring date.

### 5.5.2 Energy performance agreement

The Company entered into Energy Performance Contract (EPC) with a company. The Company would be advised to improve the efficiency of energy saving and has to pay monthly advisory fees based on percentage of the electricity power saving value in each month as specified in the agreement. The period of payment starts when the cogeneration project is complete and will pay some saving amount according to Energy Performance Contract.

## Economic & Business Forecast 2019

The global economy is expected to be less synchronized in 2019 as the US economy is the only one who can keep up with its growth pace. However, factors such as strong private consumption in key countries and supportive global trade environment still make the global economy perform well. In a meantime, the trade tension between the US and China must be well monitored because it can cause the negative impact on international trade.

Thailand economy in 2019 should continue to grow moderately. Domestic consumption will play more important role in driving Thailand economy in 2019 as more confidence arises. Meanwhile the export expansion is cooling down from the trend of trade protectionism. The political stability still remains a cautious factor as the general election result and government coalition formation in the first quarter of the year could affect the people's confidence and the overall economy.

The agricultural sector growth in 2019 will be dependent on the level of agricultural price recovery. Besides, the adequacy of rainfalls and water supplies will be the monitoring issue as some key crop areas are potentially encountering drought. These factors are the crucial determinants inducing farmers to start their cultivation, which will affect the sector's growth and inevitably the chemical fertilizer demand in 2019.

Moreover, the fluctuation of raw material price, higher competitive chemical fertilizer market and government policies could pose more risk to the Company unless adapt quickly to changes. Thus, it is important for management team to manage these factors and aim to achieve best performances.

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