
(Translation)

LTO-2018-0076

8 May 2018

Subject: Submission of the Management Discussion and Analysis based on the Financial Statements for 3-month period ended 31 March 2018

Attention: The President of the Stock Exchange of Thailand

Information and Communication Networks Public Company Limited (“Company”) held the Board of Directors’ Meeting No. 2/2018 on 8 May 2018. The Meeting approved the financial statements for 3-month period ended 31 March 2018, which were reviewed by the Company’s auditor.

We would like to submit the Management Discussion and Analysis based on the financial statements for 3-month period ended 31 March 2018

Please be informed accordingly.

Sincerely yours,



(Ms. Patnarin Maliwal)
Chief Financial Officer
Company Secretary

Executive Summary

In Q1/2018 the Company reports its total revenue of 357.84 million THB, increased by 205.60 million THB or 135.04% compared to the same period in year 2017, mainly derived from the major projects awarded e.g. IP Access Network, Backhaul System with Submarine Station, USO Mobile Network project, etc.; while sales revenue of Q1/2018 is at the amount of 357.10 million THB equivalent to 99.79% of total revenue, in Q1/2017 the sales revenue is reported at 151.93 million THB and likewise equivalent to 99.79%. In term of cost of sales and SG&A expenses for Q1/2018, it is equivalent to 322.82 million THB or 90.21 % of total revenue compared to last year at the amount of 147.76 Million THB or 97.05% . This reflects a positive development in Q1/2018 due to more efficient in managing project costs leading to higher gross margin. Net profit shows a significant growth in 2018 in comparison to the previous year at 28.43 million THB or 7.95% of total revenue, therein other comprehensive income generated by gain from actuarial benefit in the amount of 0.93 million THB is also included. In comparison to the same period of 2016, net profit is reported at 3.28 million THB or 2.15% of total revenue.

1. Business Performance Analysis

1.1 Revenue

For the first three months of the year 2018 the Company reports its total revenue of 357.84 million THB with the growth of 135.04% compared to last year showing its total revenue of 152.25 million THB because revenue recognition can be done for major projects awarded e.g. IP Access Network, Backhaul System with Submarine Station, USO Mobile Network project, etc.

Type	Jan.-Mar. 2017		Jan.-Mar. 2018	
	MB	%	MB	%
1. Sales Revenue	151.93	99.79	357.10	99.79
2. Other Revenue*	0.32	0.21	0.74	0.21
Total Revenue	152.25	100.00	357.84	100.00

Remarks *Other Revenue comprises of interest income, etc.

Total revenue can be categorized into sales revenue and other revenue, whereby in the first three months of 2017 and of 2018, sales revenue is accounted for 99.79% of total revenue and other revenue is equivalent to 0.21% showing the identical proportions for both years.

Sales Revenue

Sales revenue in the first three months of 2018 consists of turnkey business including telecommunication system and construction and electrical system, supply and maintenance.

Type	Jan.-Mar. 2017		Jan.-Mar. 2018	
	MB	%	MB	%
Sales Revenue				
Sales Revenue from Turnkey Business	48.58	31.97	261.10	73.12
- Sales Revenue from Telecommunication System	48.54	31.95	261.05	73.10
- Sales Revenue from Construction and Electrical System	0.04	0.02	0.05	0.01
Sales Revenue from Supply and Maintenance	103.35	68.03	96.00	26.88
- Sales Revenue from Supply of Telecommunication System	45.98	30.27	38.57	10.80
- Sales Revenue from Maintenance of Telecommunication System	57.37	37.76	57.43	16.08
Total Sales Revenue	151.93	100.00	357.10	100.00

During the first three months of 2018, sales revenue from turnkey business and supply and maintenance are reported at 261.10 million THB and 96.00 million THB or proportionately at 73.12% and 26.88% of total sales revenue respectively. Sales revenue from turnkey business shows a growth rate of 437.53% compared to the same period of last year. As a result of the government stimulus campaign in 2017, the revenue can be recognized from the major awarded contracts together with the increasing financial capacity of the company after IPO via mai (Market for Alternative Investment) leading to higher growth in sales revenue. Sales revenue from supply and maintenance decreases by 7.11% because certain equipment could not be delivered during the first three months; revenue therefore could not be recognized.

Other Revenue

In the first three months of 2017 and of 2018, the Company reports its other revenue at 0.32 million THB and 0.74 million THB respectively, equivalent to 0.21% of total revenue for both years and the major item is interest income.

1.2 Cost of Sales and Expenses

Major costs of the Company compose of cost of sales, selling expense, administrative expense and interest expense. In the first three months of 2017 and 2018, the Company shows its cost of sales and expense at 147.80 million THB and 322.82 million THB respectively, proportionately at 97.08% and 90.21% of total revenue.

CoS and Expenses	Jan.-Mar. 2017		Jan.-Mar. 2018	
	MB	%	MB	%
Cost of Sales	134.31	88.22	303.49	84.81
Selling Expense	5.65	3.71	7.06	1.97
Administrative Expense	7.80	5.12	12.27	3.43
Finance Cost	0.04	0.02	0.00	0.00
Total CoS and Expenses	147.80	97.07	322.82	90.21
Total Revenue	152.25	100.00	357.84	100.00

Cost of Sales

Cost of sales in the first three months of 2017 and of 2018 are 134.31 million THB and 303.49 million THB respectively, resulting in gross margin of 11.60% and 15.01%. Cost of sales can be broken down for turnkey business and for supply and maintenance of which mostly are materials, service / sub-contractors and project management costs.

Cost of Sales (CoS)	Jan.-Mar. 2017		Jan.-Mar. 2018	
	MB	GM (%)	MB	GM (%)
CoS for Turnkey Business	43.87	9.68	228.18	12.61
CoS for Supply and Maintenance	90.44	12.50	75.31	21.56
Total CoS	134.31	11.60	303.49	15.01

Cost of Sales for Turnkey Business

CoS for Turnkey business are 43.87 million THB in the first three months of 2017 and 228.18 million THB in the first three months of 2018 with the gross margin of 9.68% and 12.61% respectively. The increase of gross margin derived from efficient project cost management.

Cost of Sales for Supply and Maintenance

The Company reports its cost of sales for supply and maintenance for the first three months of 2017 and 2018 at 90.44 million THB and 75.31 million THB respectively with the gross margin 12.50% and 21.56%. The positive development of gross margin in Q1/2018 derived mainly from better project cost management than plan.

Selling Expenses

In the first three months of 2017 and 2018, the Company reports its selling expenses at 5.65 million THB, and 7.06 million THB, equal to 3.71% and 1.97% of total revenue. Selling expenses consist of personnel related expenses including new headcounts in 2018, which are for instance salary, social security, provident fund, etc.

Administrative Expenses

The Company reports its administrative expenses at 7.80 million THB and 12.27 million THB for the first three months of 2017 and of 2018 at the proportion 5.12% and 3.43% of total revenue respectively. Administrative expenses mostly comprise of personnel related expenses including new headcounts in 2018, office expenses and professional fees.

Financial Cost

The Company reports its financial cost for the first three months of 2017 and 2018 at 0.04 million THB and 0.00 million THB at the proportion of 0.02% and 0.00% of total revenue whereby financial costs in Q1/2018 can be fully allocated to projects as CoG. Financial cost is interest expense after allocation to projects and bank fees.

1.3 Net Profit

As a result of overall business performance, the Company reports its net profit for the first three months of 2017 and 2018 at 3.28 million THB and 28.43 million THB respectively, accounted for 2.15% and 7.95% of total revenue. For the first three months of 2018, the net profit is increased drastically compared to last year because its sales revenue is enormously increased, efficient project cost controlling and gain from actuarial benefit categorized under Other Comprehensive Income.

2 Financial Status

2.1 Assets

At the end of 2017 and of Q1/2018, the Company reports its total assets of 971.26 million THB and 864.66 million THB respectively. The major asset items are account receivables, unbilled receivables, inventories and restricted bank deposits; at the end of 2017 proportionately at 31.72%, 14.79%, 15.31% and 13.28% of total assets respectively and at Q1/2018 proportionately at 48.20%, 14.35%, 8.50% and 14.64% of total assets. Total current assets are accounted for 85.69% for the yearend 2017 and 84.21% for Q1/2018 to total assets.

Trade Receivables

At the end of 2017 and Q1/2018, the Company reports net trade receivables 307.55 million THB and 416.80 million THB or equal to 31.67% and 48.20% of total assets respectively.

Outstanding Period	At 31 Dec. 2017		At 31 Mar. 2018	
	MB	%	MB	%
Trade Receivables				
Undue	171.60	55.80	35.77	8.58
Overdue				
Less - equal to 3 months	69.91	22.73	313.83	75.30
More than 3 months but less than 6 months	42.09	13.69	12.84	3.08
More than 6 months but less than 12 months	23.95	7.78	54.36	13.04
More than 12 months	-	-	-	-
Total Trade Receivables	307.55	100.00	416.80	100.00
Deduct Allowance for doubtful debt	-		-	
Trade Receivables - Net	307.55		416.80	

The table depicts trade receivables of the Company in the year 2017 with undue and overdue less or equal to 3 months is at 78.53%, overdue more than 3 months but less than 6 months at 13.69% and overdue more than 6 months but less than 12 months at 7.78% of Net trade receivables.

In Q1/2018, the Company reports the undue trade receivables, overdue with less or equal to 3 months, overdue for 3 to 6 months and overdue between 6 to 12 months at 8.58%, 75.30%, 3.08% and 13.04% of total trade receivables. The overdue trade receivables between 6 to 12 months are still under the process of customer contract amendment and the collection can be triggered once the amendment is completed.

Unbilled Receivables

Due to its turnkey business, the revenue recognition is performed based on percentage of completion method which may deviate from the payment plan according to the contractual conditions. As a result, unbilled receivables are reported at the end of 2017 and Q1/2018 at 143.67 million THB and 124.11 million THB showing slight reduction or equivalent to 14.79% and 14.35% of total assets respectively.

Inventories

At the end of 2017 and Q1/2018, the Company reports the inventories at 148.75 million THB and 73.53 million THB in conjunction to the computation based on percentage of completion method. At the end of 2017, inventories are reported with drastic increase from former year due to the equipment was delivered to the project sites

for certain projects; however, the installation could not be performed. The equipment was therefore reported as inventories at that stage. In this quarter, the installation could be conducted resulting in lower inventories in this period.

Other Current Assets

Other current assets comprises of VAT, undue VAT, etc. At the yearend 2017 and Q1/2018, the Company reports other current assets in the amount of 24.15 million THB and 5.02 Million THB respectively. Other current assets in Q1/2018 are mostly from tax related items i.e. VAT 2.58 million THB and undue VAT 1.12 million THB.

Restricted Bank Deposits

At the yearend 2017 and in Q1/2018, the amount of restricted bank deposits are at 128.96 million THB and 126.58 million THB respectively. The change is subject to the credit facilities required for operating the business.

Office Improvement and Equipment

At the yearend 2017 and in Q1/2018, the amount of fixed assets are at 5.24 million THB and 5.22 million THB respectively of which are basically the office improvement, office supplies, vehicles and computer equipment because the main company business is system integration and does not require any big fixed asset items.

2.2 Sources of Fund

Liabilities

The Company reports its total liabilities at 474.92 million THB at the end of 2017 and 339.89 million in Q1/2018 and the major items are trust receipts and account payables which are regarded as working capital for running the business.

Most of the liabilities are current liabilities with its proportion as at 2017 and in Q1/2018 at 98.63% and 98.31% of total liabilities respectively.

Trust Receipts

In the year end 2017, the Company settled all T/R debts with banks after IPO; therefore, no trust receipt is reported; whereby in Q1/2018, the amount is reported at 132.97 million THB due to the loan from bank under domestic letters of credit for operating the projects

Trade and Other Payables

The Company reports its trade and other payables at the end of 2017 and in Q1/2018 at 372.64 million THB and 103.02 million THB respectively and this shall vary in relation to the company business performance and cost of sales.

Trade and Other Payables	At 31 Dec. 2017		At 31 Mar. 2018	
	MB	%	MB	%
Trade Payables	352.95	94.72	90.46	87.80
Other Payables	1.05	0.28	1.14	1.11
Accrued Interest	-	-	-	-
Trade Payables - Retention	1.88	0.50	0.70	0.68
Accrued Expenses	16.76	4.50	10.72	10.41
Total Trade and Other Payables	372.64	100.00	103.02	100.00

The major trade and other payables are trade payables, mostly for equipment, service and sub-contractors costs in projects.

Unbilled Payables

Unbilled payables incur when the invoice from vendors are not placed when recognizing its revenue in the project and the Company reports accrued costs at the end of 2017 and in Q1/2018 at 35.89 million THB and 56.65 million THB respectively.

Advance Receipts from Customers

Advance receipts from customers take place when the Company can invoice and collect the customer payment based on the invoicing plan. Mostly they will incur when collecting the money shortly after signing the contract. At the end of 2017 and Q1/2018, the amount for advance receipts from customer are 40.63 million THB and 26.23 million THB respectively. This advance receipts shall be recognized as revenue along with the project progress.

Shareholders' Equity

The shareholders' equity is in the amount of 496.34 million THB at the year end of 2017 and of 524.77 million THB in Q1/2018 which has constantly increased corresponding to the business result of which the legal reserve is accounted for 6.00 million THB and the rest of retained earnings is 138.71 million THB at the end of Q1/2018

Funding Structure

D/E ratio of the Company is at 0.96, and 0.65 for the year end 2017 and in Q1/2018 respectively.