

CHOW 271/ 2024

28 February 2024

Subject : Management's Discussion and Analysis for the year ended 31 December 2023

Attention : Committee and Manager, The Stock Exchange of Thailand

Refer to : The Regulation of the Stock Exchange of Thailand in regards with the preparation and submission of the financial Statements and reports on financial condition and results of operations of the Company Act 2001

Chow Steel Industries Public Company Limited ("the Company") would like to declare its operating results for year ended 31 December 2023 and statement of financial position as of 31 December 2023. The analysis topics are as follows.

1. Management Discussion & Analysis
2. Company performance analysis for the year ended 31 December 2023
3. Consolidated Statement of Financial Position analysis
4. Consolidated Statement of Cash Flows analysis

1. Management Discussion & Analysis

The overall business of Chow Steel Industries Public Company Limited in 2023 was profitable in all business segments, reflecting the various business strategies in line with the management's vision. In addition, it also lays the foundation for the growth of all kinds of core businesses of the Group, both in steel and alternative energy, which can be described as follows:

Steel Business: Since 2019, the Group has shifted its business from manufacturing and distributing metal billets to providing OEM services on customer order to reduce the market price fluctuation of raw materials (scrap metal) and finished products, which fluctuate from time to time as metal billets are a commodity product. By providing OEM services, the Company will generate revenue in the form of production fees in Baht per ton of actual production volume. In 2022, the Company has set up a new production line for “wire rod” products under the OEM service model. The wire rod products received approval for the industry standard. In 2022 and 2023, the Company generated additional revenue from trading of its own metal products to customers. In the current year, the company will also receive a dividend from a subsidiary that operates solar power plants in Thailand and oversea, which also shifted up profits in the current year.

Alternative Energy Business: In 2023, the Group successful for establishment of a joint venture company for the development of solar energy projects in Thailand with BlackRock Fund, with 51% of the shares being held by the Company and the remaining 49% by the joint venture partners (BlackRock Fund). This is part of the Company's success in building an alternative energy business in Thailand through business model that provides some certain of discounted on power purchase agreement price (PPA) for private companies and government agencies who seeking to reduce their production and service costs without own investment. Doing business in the form of PPA contracts is a trend that all sectors, both domestically and internationally, are encouraging and supporting in order to reduce various burdens that impact the environment in the short term. In the medium to long term, the company can continue to use carbon credits to support companies in need.

As a result of the investment in the solar power plant business by BlackRock Fund amounting to 49% of the share capital, the Company recognized the gain on the transaction and adjusted the fair value of the Group, in which the Company holds 51% of the shares, in the total amount of Baht 426 million (in accordance with the requirements of accounting standards). Such investment by the Company and BlackRock is another part of the business strategy and attracting well-known exclusive partners who can provide the Company with an excellent image. The Company is prepared to provide funding for project expansion and can support the Group's access to a variety of funding sources. The company aims to expand solar power plant projects in Thailand in the form of PPA contracts of approximately 1 GW.

As at December 31, 2023, the Group had a total of 35.8 MW of solar energy projects with COD in Thailand, with at least additional 77.2 MW of signed projects under parallel licensing and under construction, which will gradually operate in 2024. The Group also has a number of power plant projects under development in Australia and other overseas projects under review.

Sustainable Corporate Development: ESG

The Group has begun to apply the concept of sustainable corporate development: ESG to manage and incorporate environmental responsibility, and corporate governance to be transparent. The Company is convinced that developing the organization within the framework of ESG will enable the Group to grow and exist sustainably with society. It is not just about running a business to provide returns to stakeholders. Implementing ESG systems into business development requires time, cost and a sense of responsibility from all employees of the company. The Group has initiated the appointment of an ESG working Group to address each part of the Group's business as follows:

Steel Business: The company is in the process of collecting data on carbon emissions for each process of manufacturing. The company's carbon footprint is expected to be finalised by the second quarter and the report will be submitted to the relevant authorities for review and approval as part of the data collection process and carbon emissions by the third quarter of 2024.

Alternative Energy Business: The Company is in the process of developing an "Environmental and Social Management System" (ESMS) in accordance with the guidelines laid down by the World Bank via the IFC (International Finance Corporation) under the supervision and control of the World Bank Group.

2 The Group Performance Analysis

2.1) Analysis for year ended 31 December 2023

Financial Information - Consolidated Operating Results	For the year ended 31 December 2023			
	31-Dec-23	31-Dec-22	Changes	
	Mb	Mb	Mb	%
Sale and service income	3,795.81	2,709.28	1,086.54	40.1%
Cost of sale and service	(3,116.37)	(1,120.90)	(1,995.48)	178.0%
Profit margin	679.44	1,588.38	(908.94)	-57.2%
% Profit margin	17.9%	58.6%	-40.7%	
Other income	94.92	44.70	50.23	112.4%
Gain on exchange rate, net	6.15	61.04	(54.89)	-89.9%
Selling and administrative expenses	(224.42)	(357.67)	133.25	-37.3%
Profit from continued operation	556.09	1,336.44	(780.35)	-58.4%
Share of loss from investments in joint ventures	(1.48)	(0.41)	(1.07)	264.5%
Finance cost	(78.98)	(102.16)	23.18	-22.7%
Income tax	(15.06)	11.43	(26.49)	-231.8%
Profit (loss) for the period from continued operation	460.57	1,245.31	(784.73)	-63.0%
Loss after income tax from discontinued operation	-	(79.57)	79.57	-100.0%
Profit (loss) for the period	460.57	1,165.74	(705.17)	-60.5%
EPS (Baht/ share)	0.58	1.28	(0.70)	

In 2023, the Group reported total revenue of 3,797.23 million baht, a significant increase of 1,108.24 million baht or 41.2% compared to the same period in the previous year. The main income and the increase in sales are mainly due to the additional trading volume of steel billets and wire rod. Furthermore, there were new COD of solar projects in the current year compared to the previous period. The breakdown of revenue by division is as follows:

Type of Revenue by BU	2023	2022	Growth	
			Mb	%
Steel BU				
Trading - Steel products	1,919.22	645.02	1,274.21	197.5%
OEM services	859.36	493.29	400.76	81.2%
Total	2,778.57	1,138.32	1,674.97	147.1%
Renewable Energy BU				
Sale electricity	119.34	76.61	42.73	55.8%
EPC Turnkey services	471.39	69.07	402.31	582.5%
Total	590.73	145.68	445.04	305.5%
Gain from business strategy management	426.51	1,425.28	(998.79)	-70.1%
รายได้รวม	3,795.81	2,709.28	1,086.54	40.1%

Steel Business

Revenue from the steel business increased by 147.1% compared to 2022, mainly due to the Company's ability to support its customers in various types of steel products, both billets and wire rod, which enables the Company to receive more customer orders (OEM service) and trade steel products to new customer groups. In 2023, the company received the highest OEM order from a customer since 2019. The Company also expects that there will be more OEM orders from customers if the demand for steel in the market does not weaken.

Renewable Energy Business

In 2023, 35.8 MW of rooftop solar capacity was in operation, compared to 6.6 MW in 2022, resulting in higher revenue from electricity sales in the current year. The Company currently has power plants with a capacity of approximately 4.22 MW that can be commissioned as soon as these projects are approved by the PEA/MEA. The Company assumes that approval will be granted by the first quarter of 2024. In addition, a further 73 MW are under construction and permit approval from the relevant authorities. These projects was expected to COD in 2024.

On 30 Aug 2023, the Group successful on incorporate a newly joint investment with Black Rock fund to operate Solar Rooftop project through PPA in Thailand. Black Rock fund invested 49% of total registration share capital at fair market value price. The Group recognised profit from strategic jointly investment according to the Thai Financial Reporting Standard for 426.49

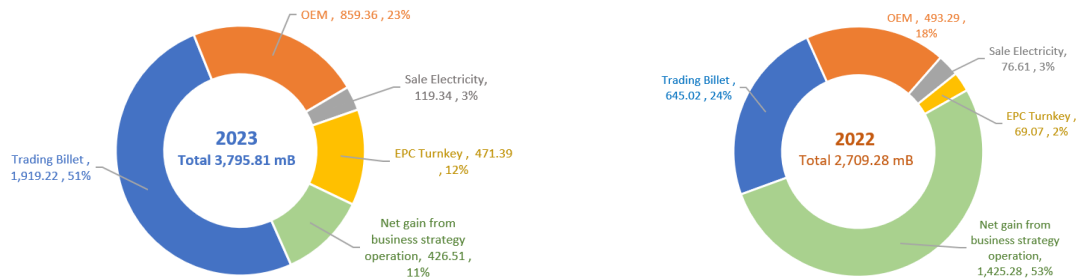
mBath. It was consider as an achievement for doing solar rooftop business in Thailand and strongly believe that the jointly control partnership can generate profit to all stakeholders and continue growth with sustainable.

EPC turnkey revenue was considered as a core value of the Group that can generate higher profit (increase of 582.5% compared to the previous year). The project in the current year consists of EPC Turnkey, which includes engineering service, procurement and construction services.

As a result of the joint investment in the new joint venture between the Group and the BlackRock fund, the Group will not recognise revenue from the sale of electricity and selling costs from September 2023, but will recognise a 51% share in the net operating profit of the joint venture.

The management also sees further benefits from the joint partnership with the BlackRock fund by raising the Group's profile in the region, enjoying a good reputation and increasing the possibility of obtaining more rooftop solar projects together with full equity financing support and also recommending new channels for borrowers with lower interest costs.

Sale Mix Analysis : The Group's revenue has changed slightly compared to the previous year: 51% comes from steel trading, 23% from OEM services, 11% of revenue is profits from the strategic joint venture with BlackRock Fund and the remaining 16% from the sale of electricity and turnkey EPC projects. Compared to 2022, 53% came from the strategic exit from the solar power plant project in Japan and reinvestment in new projects with higher returns for the Group. 24% from trading in steel products, 18% from OEM service and the remaining 5% from solar rooftop projects in Thailand.



Gross profit and Profit margin

Gross profit in the current year was reported at Baht 679.6 million or 18%, mainly due to the successful establishment of a new joint venture with BlackRock funds, which contributed Baht 426.51 million. Compared to the previous year, gross profit of 1,588.38 million baht or 58% was reported due to the strategic exit from the solar power plant in Japan with revenue of 1,425.28 million baht. The remaining gross profit mainly came from steel and renewable energy business which increased by 91 million baht due to the additional volume of steel trading with new customer groups, especially wire rod products and turnkey EPC services for major projects compared to the previous year. However, the percentage of profit margin decreased slightly by 5.1% due to strong competition in the trading market for steel products.

Gain (loss) on exchange rate

The Group recognized net foreign exchange gains totaling Baht 6.15 million, mainly from the renewable energy business. The subsidiary paid a dividend from the profit of the strategic overseas solar project. This dividend served as a source of funding for the repayment of debt in JPY currency within the Group. As a result, the principal amount of debt in this currency was significantly reduced, so that exchange rate translation had no material impact in the current year.

Selling and administrative expenses:

Selling and admin expenses was decreased by 132.66 mB from 2022 which mainly came from professional fee related to strategic exist solar power plant in Japan.

Finance cost:

The total financing costs in the current year came largely from a project finance loan granted specifically for a rooftop solar project under a PPA program in Thailand until August 2023, after that all debt was transferred to the group of joint ventures in which the Company and the BlackRock fund have invested. In addition, the Group repay all outstanding bonds and interest to the bondholders in May 2023.

3. Analysis of Consolidated financial position

Statement of Financial Position	31-Dec-23	31 Dec 22	Changes	
	Mb	Mb	Mb	%
ASSETS				
Current assets	1,627.37	2,382.10	(754.73)	-31.7%
Non-current assets	1,750.91	2,289.05	(538.14)	-23.5%
Total Assets	3,378.29	4,671.15	(1,292.87)	-27.7%
Liabilities and Equity				
Liabilities				
Current liabilities	1,055.86	2,536.35	(1,480.50)	-58.4%
Non-current liabilities	77.77	198.72	(120.95)	-60.9%
Total Liabilities	1,133.63	2,735.08	(1,601.45)	-58.6%
Shareholders' equity	2,244.66	1,936.08	308.58	15.9%
Total Liabilities and Equity	3,378.29	4,671.15	(1,292.87)	-27.7%

Total Assets and Liabilities

As at December 31, 2023, the Group reported total assets of Baht 3,378.29 million, a decrease of Baht 1,292.87 million compared to the previous year. The Group's total liabilities amounted to Baht 1,133.63 million, a decrease of Baht 1,601.45 million compared to the same period of the previous year. Both the decrease in total assets and total liabilities are mainly due to a new joint investment established by the Group and BlackRock Fund in September 2023. The total assets and total liabilities related to the solar rooftop operation in Thailand were separated from the Group and recognised in a new joint venture company.

4. Analysis of Cashflow Statement

Summary of Consolidated Statement of Cashflow	Mb
Net cash out-flows from operating activities	(20.99)
Net cash in-flow from investing activities	1,469.49
Net cash out-flows from financing activities	(1,304.88)
Changes in translation adjustments	(120.72)
Net decreased in cash and cash equivalents	22.90
Cash and cash equivalent - beginning of the period	67.68
Cash and cash equivalent - end of the period	90.58

Net cash out-flow from operating activities

For the year ended December 31, 2023, the Group had a net cash outflow from operating activities of Baht 20.99 million, of which Baht 71.05 million was received for operating activities during the year and net interest and income tax was paid total of 92.04 million baht

Net cash in-flow from investing activities

The Group had net cash received from investments amounting to Baht 1,469.49 million, which consisted of cash from decreasing of fixed deposits in foreign currency amounting to Baht 1,260.05 million, cash received from incorporate of new Joint Venture company from BlackRock fund for Baht 425.9 m and cash used in purchase of property, plant and equipment for Baht 230.62 m.

Net cash out-flow from financing activities

The Group has repaid short-term loans from banks and unrelated businesses and debentures totaling 1,754.77 million baht. The Company received loans from banks for Project Finance in the amount of 474.6 million baht and dividend payment to minority shareholders for 24.05 mB, respectively.

Yours sincerely,

(Mr. Anavin Jiratomsiri)
Chief Executive Committee