



# PTG Energy Company Limited

## Management Discussion and Analysis

### Year 2018

#### Executive Summary

During the past 3 decades, PTG Energy Company Limited dedicates to be Thailand's leading full-service energy company, and continues to build its network to other related businesses which can response to the needs of its customers. The aim is to build strong growth and sustainable returns by practicing good governance along with developing the society and the environment.

#### **Remain number one in the growth rate of oil sales volume, resulting in becoming number 2 in oil retailer of the country**

In 2018, the oil industry faced many challenges, including the slow recovery of the grassroots economy due to the low agricultural product prices resulting in lower purchasing power of farmers who is Thailand's main consumers. In addition, there were impacts from flooding in many areas. Such factors affected the oil consumption through service stations to grow only 2.4% compared to last year. The growth of oil consumption was concentrated in Bangkok and its vicinity with a growth rate of 5.6% YoY while the oil consumption outside Bangkok and its vicinity was grown only 1.4% YoY.

However, PTG continued to maintain its growth with the total oil sales volume of 3,921 million liters through retail and wholesale channels, up 16% from last year. From the fact that PTG mainly focuses on oil retail sales, causing PTG to obtain oil retail sales proportion of 95%. Furthermore, the retails sales volume increased 17% from last year. In the 4Q/2018, PTG's market share of oil sales through service stations<sup>1</sup> was 14.80% or became number 2 in the country.

Competition in the oil retail industry is still ongoing as seen from the fact that each company has issued various campaigns about membership cards and has launched applications to increase convenience for customers, in order to retain its existing customer base and acquire new prospects. Nevertheless, PTG noticed a decline in promotion competition after the government announced to cap the diesel price at 30 Baht per liter to reduce the burden of diesel users from the sharp rising in crude oil prices since the end of the second quarter until the beginning of the fourth quarter. This resulted in a decrease in marketing margin during this period. However, the marketing margin has returned to the normal level after the sharply fall of crude oil prices since the middle of the fourth quarter.

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<sup>1</sup> includes High Speed Diesel, Benzene 95, Gasohol 91, and Gasohol 95 (E20)

### **Focus on expanding service points in potential areas**

From the economic conditions which the growth is concentrated in large cities, PTG has therefore adjusted the branch expansion strategy. Particularly, the emphasis is on expansion in areas with high growth and has potential to increase the service to a full range in order to balance the expansion of service stations to cover all areas, not only in the provincial areas. So far, PTG has received a good response from both customers and partners who are interested in joining more businesses.

In addition, PTG has modernized the image of service stations, and has adopted digital display technology to be more comfortable for customers to see and to ensure that they receive the product in full liter. Currently, PTG has 133 service stations in Bangkok and vicinity areas from the total station of 1,883 stations, divided into 1,758 oil stations, 48 LPG stations, and 77 oil and LPG stations.

### **Fulfill the full range of non-oil services to customers**

In addition to achieving the goal of fully responding to consumer needs, fluctuations in crude oil prices during the past period causing PTG to instantly accelerate non-oil businesses in order to adjust the profit structure to ensure long-term cash flow stability. At present, the non-oil business in the service station is growing. Due to the fact that PTG owns and operates its service stations, this enables PTG to be able to control the distribution channels and control the service standards of the Company. Currently, PTG obtains 504 service points for non-oil businesses under PTG Energy group, including food and beverage business, convenience store business, and service businesses. From the goal of fulfilling an integrated service, gross profit from non-oil business has continuously increased to 781 million Baht, up by 65% YoY, and a gross profit proportion from non-oil businesses increased to 10% from 8% last year.

### **Business Performance Summary in 2018**

In 2018, PTG's revenue from sales and services was 107,829 million Baht, an increase of 27.4% YoY. The main factors were from the increase in sales volume of 16% and the rise in retail oil prices of 9% from YoY. However, the gross profit was 7,443 million Baht or increased by only 19% as a result of the Thai Government's appeal to the petroleum retailers to cooperate to cap the price of diesel at 30 Baht per liter to ease the burden of diesel users during the rapidly rising in petroleum cost. This resulted in a lower average marketing margin in 2018 than in 2017. In addition, there was the rise in sales and administrative expenses from the continuous expansion of branches, causing PTG to have higher employee related expenses, rental expenses, and depreciation expenses. However, PTG has established a policy to expand branches only in potential areas to support non-oil business expansion of PTG Energy Group and its partners, which generate more profit from other businesses to PTG. In this regard, PTG had EBITDA of 3,508 million Baht, an increase of 14% YoY, and a net profit of 624 million Baht, a drop 32% YoY. Therefore, a net profit per share was 0.37 Baht which decreased from the previous year at 0.55 Baht.

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## Operational Targets in 2019

PTG continues to focus on increasing oil sales volume and maintaining market share as number 2. Moreover, the Company will still increase variety in service stations by connecting the services of the PTG networks with various partners that can create better customer experiences. In this regard, PTG expects to have 2,000 oil and LPG stations and to have 700 service touch points of non-oil businesses, including food and beverage businesses, convenience store business, and other service businesses. The Company also forecasts the growth of oil sales volume at 16-20% from last year.

Due to the marketing margin returning to normal since the mid of 4Q/2018 after the rapid decline in crude oil prices, and there is a tendency that crude oil prices will remain low, therefore, PTG expects the EBITDA growth rate to be 40-50% from last year. PTG budgets its investment of approximately 3,500 million Baht, divided into investment in expansion and improvement of the main business of 2,500 million Baht, non-oil business of 500 million Baht, and new business of 500 million Baht (see more details in the executive's view on page 9).

## Important Events Relating to Joint Investment in 2018

**April** – The Board of Directors had approved Punthai Coffee Company Limited, a subsidiary (PTG holds 99.99% of the total shares), to acquire of newly issued shares of Jitramas Catering Company Limited or ("JTC") totaling 315,000 shares, representing 70% of total share. JTC is a manufacturer and service provider of food and beverage business including cooked fresh food, chilled food, frozen food, and catering service for leading hotel in Thailand. PTG recognizes the potential for future business growth and to support the growth and development of the food and beverage business under the Company's network to have same quality and standards. Furthermore, JTC could add variety of food product to meet the needs of consumers for maximum satisfaction.

**May** – The Board of Directors had approved of the Company's participation in a joint investment with Bangkok Aviation Fuel Services Public Company Limited to found a new subsidiary to operate service stations near the oil depot in Phichit, the oil depot in Lampang, and oil pumping station in Kamphaeng Phet of Fuel Pipeline Transportation Company Limited.

**October** – The Board of Directors had approved the Company's participation in a joint investment with Mr. Wootichai Preeputtarat in the establishment of Innoligent Automation Company Limited ("INA") with the registered capital of 5.5 million Bath. The Company holds 60% of INA's total shares. INA was established with the objective to develop management equipment and customer information storage within the service station. This will greatly increase the efficiency and accuracy of the service station management. It will also improve data processing to meet the needs of customers more comprehensively.

**November** – The Board of Directors of the Company had approved PTG Green Energy Company Limited ("PTGGE"), a subsidiary (PTG holds 99.99% of the total shares), to cancel the joint venture agreement with Eiamburapa Company Limited

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("EBP") after studying the process of producing ethanol from cassava pulp and concluded that this process is not suitable for commercial business in this period. However, the Company is in the process of studying technology about ethanol production that is suitable for the business under this project and can provide a better rate of return. Therefore, the Board of Directors of the Company approved PTGGE to purchase all of the shares of Innotech Green Energy Company Limited ("IGE") from EBP in total of 400,000 shares or 40.00% of total shares.

#### **Business Performance Summary in Q4/2018**

PTG had the highest sales volume of 1,060 million liters, up 21% YoY and 13% QoQ. The sales channel through the service station is still the main channel accounted for 96% of the total oil sales volume. As well as the volume of LPG sales, the sales volume reached the highest amount of 29 million liters, an increase of 71% YoY and an increase of 11% from QoQ, which all sales volume was sold through station channel. Consequently, PTG had a market share of oil sales through service stations<sup>2</sup> in 4Q/2018 at 14.80% or ranked second in the country.

Fuel Sales Volume (Million Liters)	Q4/2018	Q3/2018	Q2/2018	Q1/2018	Q4/2017	% QoQ	% YoY
<b>Sales by Channel</b>							
Retail Channel	1,016	896	926	890	849	13%	20%
Wholesales Channel	44	39	59	52	27	11%	64%
<b>Total</b>	<b>1,060</b>	<b>935</b>	<b>985</b>	<b>942</b>	<b>875</b>	<b>13%</b>	<b>21%</b>
<b>Proportion of Sales by Channel</b>							
Retail Channel	95.9%	95.8%	94.0%	94.5%	96.9%		
Wholesales Channel	4.1%	4.2%	6.0%	5.5%	3.1%		
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>		

In Q4/2018, PTG's revenues from sales and services was 29,243 million Baht, reflecting an increase of 29% YoY and 9% QoQ. The growth came from the rise of sales volume and the increase of selling price per liter of 6% YoY, but decreased 4% QoQ. However, the main source of revenue still came from the oil business which accounted for 97% of total revenue.

PTG's cost of sales and services was 27,244 million Baht, reflecting an increase of 30% YoY and 9% QoQ. This was caused by the rising oil sales volume and oil prices. Therefore, PTG obtained gross profit of 1,999 million Baht, or an increase of 20% YoY and 16% QoQ. In 4Q/2018, the marketing margin was about 2% higher than previous quarter, but about 4% less than last

<sup>2</sup> includes High Speed Diesel, Benzene 95, Gasohol 95, Gasohol 91, and Gasohol E20

year. However, the marketing margin have begun to return to its normal level since the middle of the fourth quarter after the price of crude oil fell sharply.

Selling and administrative expenses were 1,809 million Baht, reflecting an increase of 26% YoY and 6% QoQ. The costs were mainly from employee-related expenses, rental expenses, and depreciation expenses as a result of the expansion of service station. However, the cost started to grow in the decreasing rate. Meanwhile, PTG will continue to focus on managing its expenses at appropriate level to continuously create competitive advantages, along with generating additional income from existing assets.

From the operational performance mentioned above, the EBITDA for this quarter was 959 million Baht, reflecting an increase of 16% YoY and 34% QoQ. The net profit was 176 million Baht, a drop of 26% YoY, but a growth of 17,500% QoQ.

#### 2018 Financial Result Summary

Financial Summary (Baht Million, unless stated)	4Q/2018	3Q/2018	4Q/2017	%QoQ	%YoY	2018	2017	%YoY
Revenue from sales and services	29,243	26,745	22,595	9.3%	29.4%	107,829	84,625	27.4%
Cost of sales and services	(27,244)	(25,023)	(20,934)	8.9%	30.1%	(100,386)	(78,371)	28.1%
Gross profit	1,999	1,722	1,661	16.1%	20.3%	7,443	6,254	19.0%
SG&A	(1,809)	(1,715)	(1,431)	5.5%	26.4%	(6,710)	(5,278)	27.1%
Selling expenses	(1,552)	(1,451)	(1,286)	7.0%	20.7%	(5,746)	(4,475)	28.4%
Administrative expenses	(257)	(264)	(145)	-2.7%	77.2%	(964)	(803)	20.0%
EBITDA	959	716	825	33.9%	16.2%	3,508	3,067	14.4%
Net profit	176	1	239	17,500%	-26.4%	624	913	-31.7%
Gross profit margin	6.8%	6.4%	7.4%			6.9%	7.4%	
SG&A as a % of revenue	6.2%	6.4%	6.3%			6.2%	6.2%	
% Selling expenses	5.3%	5.4%	5.7%			5.3%	5.3%	
% Administrative expenses	0.9%	1.0%	0.6%			0.9%	0.9%	
Operating profit margin	1.0%	0.3%	1.4%			1.0%	1.5%	
EBITDA margin	3.3%	2.7%	3.6%			3.3%	3.6%	
Net profit margin	0.6%	0.0%	1.1%			0.6%	1.1%	
Earning per share (Baht)	0.11	0.00	0.14			0.37	0.55	
Return on Total Assets	13.3%	0.1%	19.7%			11.8%	18.8%	
Return on Equity	3.6%	0.0%	6.3%			3.2%	6.0%	
IBD to equity ratio (x)	1.62	1.78	1.58			1.62	1.58	

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- **Revenue from Sales and Services** was 107,829 million Baht, reflecting an increase of 27% YoY. The increase in revenue came from three main factors. 1. sales volume, which rose to 3,921 million liters or an increase of 16% YoY as a result of the station expansion. Recently, PTG's sales volume through station channel accounted for 95% of total sales volume due to the emphasis on sales through retail channels. The same store sales volume was close to the previous year because of the slow recovery in the grassroots economy outside Bangkok and its vicinity. 2. Domestic retail oil prices rose 9% from last year according to the increase of crude oil prices. 3. Revenue growth from non-oil businesses increased 54% from last year. However, the 97% of the total revenue from sales and services were still from the oil business.
- **Cost of sales and services** was 100,386 million Baht, reflecting an increase of 28% YoY correlating with the rise in volume of sales as mentioned above and the increase in oil prices of 10% YoY due to the rapidly rise in crude oil price. Consequently, the government requested for cooperation from oil retailer companies to maintain the level of retail diesel prices at 30 Baht per liter since June to reduce farmers' burden and transport business operators. As a result, the gross profit grew to 7,443 million Baht or increased by only 19%. The gross profit per liter has begun to return to the normal level after the price of crude oil decline since the middle of the fourth quarter of 2018.
- **SG&A expenses** was 6,710 million Baht, reflecting an increase of 27% YoY. This growth was from the higher selling expenses to support PTG's business expansion in both oil business and non-oil businesses. The main expenses were still from employee-related expenses, rental expenses, and depreciation expenses.
  - **Employee-related expenses** was 2,449 million Baht, reflecting an increase of 20% YoY. The increase in costs is from the expansion of branches that focus on providing excellent service standard and on creating jobs for people in the area. Currently, PTG has a total of 2,065 branches of the oil business and non-oil businesses nationwide under its operation.
  - **Rental and leasehold right expenses** was 1,328 million Baht, reflecting a growth of 34% YoY, in correspondence with the focus in service station expansion in Bangkok and vicinity areas, where there is a high economic growth area. This area offers opportunities to expand the customer base for both PTG's non-oil businesses and its partners' businesses.
  - **Depreciation expenses** was 1,202 million Baht, reflecting an increase of 46% YoY. This rise was caused by the expansion of the service stations in a more full-service model by focusing on opening branches in Bangkok, its vicinities, and large cities.
- **EBITDA and Net Profit**, EBITDA was 3,508 million Baht, reflecting a growth of 14% YoY, corresponding with the rise in sales volume. However, with a decrease in marketing margin from the cap in diesel price, and an increase in selling and administrative expenses and financial costs from the rapid expansion of oil business and non-oil business resulted in

PTG's net profit of 624 million Baht, down 32% from last year. The Company's net profit per share was 0.37 Baht, down from 0.55 Baht in last year.

#### Statement of Financial Position

Financial Position (Baht million)	2018	%	2017	%	Amount changes	% changes
Cash and current investment	1,010	5%	926	5%	84	9%
Trade, other receivables, short-term lending	1,169	6%	994	6%	175	18%
Inventories	1,756	8%	1,989	11%	-233	-12%
<b>Total current assets</b>	<b>3,935</b>	<b>19%</b>	<b>3,909</b>	<b>22%</b>	<b>26</b>	<b>1%</b>
Investment properties	379	2%	278	2%	101	36%
Property, plant, and equipment	11,018	53%	8,865	49%	2,153	24%
Rental and leasehold rights	2,874	14%	2,311	13%	563	24%
Investment in a joint venture	679	3%	696	4%	-17	-2%
Investment in associate	805	4%	804	4%	1	0%
General investment	723	3%	723	4%	0	0%
Intangible assets	210	1%	193	1%	17	9%
Goodwill	53	0%	53	0%	0	0%
Other non-current assets	258	1%	153	1%	105	69%
<b>Total assets</b>	<b>20,934</b>	<b>100%</b>	<b>17,985</b>	<b>100%</b>	<b>2,949</b>	<b>16%</b>
Trade and other payables	6,333	30%	4,520	25%	1,813	40%
Short-term loans & loans due within 1 year	4,518	22%	3,693	21%	825	22%
Other current liabilities	40	0%	62	0%	-22	-35%
<b>Total current liabilities</b>	<b>10,891</b>	<b>52%</b>	<b>8,275</b>	<b>46%</b>	<b>2,616</b>	<b>32%</b>
Financial lease liabilities	387	2%	572	3%	-185	-32%
Long-term loans	3,986	19%	3,834	21%	152	4%
Deferred tax liabilities	45	0%	55	0%	-10	-18%
Other non-current liabilities	153	1%	130	1%	23	18%
<b>Total liabilities</b>	<b>15,462</b>	<b>74%</b>	<b>12,866</b>	<b>72%</b>	<b>2,596</b>	<b>20%</b>
Retained earnings	2,475	12%	2,171	12%	304	14%
Others	2,997	14%	2,947	16%	49	2%
<b>Total equity</b>	<b>5,472</b>	<b>26%</b>	<b>5,119</b>	<b>28%</b>	<b>353</b>	<b>7%</b>
<b>Total liabilities and equity</b>	<b>20,934</b>	<b>100%</b>	<b>17,985</b>	<b>100%</b>	<b>2,949</b>	<b>16%</b>

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As of December 31, 2018, PTG had the total assets of 20,939 million Baht, reflecting an increase of 2,954 million Baht or 16% from 2017. The growth was mainly from the increase of property, plant and equipment, and leasehold rights and prepaid land rental due to the expansion of integrated service of the oil business and non-oil businesses in areas with high economic growth, such as Bangkok, its vicinities and large cities.

Meanwhile, PTG had total liabilities of 15,463 million Baht, an increase of 2,597 million Baht or 20% from last year. This was a result of the increase in trade payable and other payable to support the growing sales volume, and the growth of short-term loans and liabilities due in 1 year from the maturity of debentures in 2019 (see more details in maturity schedule on page 9). However, PTG had reduced liabilities under financial lease agreements from increasing the efficiency of the transportation system instead of increasing the number of oil transportation vehicles.

PTG shareholders' equity was 5,476 million Baht increased by 357 million Baht from last year, which was mainly from an increase of retained earnings of 308 million Baht, which from the net profit of 624 million Baht in 2018, the paid of 283 million Baht, and legal reserve of 33 million Baht.

Sources and uses of funds statement for 2018 (Baht million)			
Sources		Uses	
Cash from operations	5,395	Investment in leasehold rights, PP&E, and intangible assets	5,339
Cash received from loans, net	1,047	Invested in subsidiaries, associates, and joint-ventures	21
Cash received from short-term investment and dividend, net	23	Dividend payment	284
Cash received from short-term lending and deposit used as collateral	4	Payments for interest and income tax, net	472
Cash received from selling assets	2	Payments for finance leases	261
Cash received for payment of shares of subsidiaries	6	Proceeds from short-term loans to related parties	15
		Cash increased	85
	<b>6,477</b>		<b>6,477</b>

For the year 2018, PTG had net cash flow from operations of 4,923 million Baht, increased 76% from last year, resulting from the change in trade payable and other payable in accordance with payment terms. Meanwhile, net cash flow from investing activities was 5,347 million Baht, dropped 6% from the previous year due to the expansion policy to focus only in high economic

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growth areas. The net cash flow from financing activities was 508 million Baht, decreased 84% from last year due to the investment and financial ratio plan adjustment. As a result, PTG increased its cash and cash equivalents by 85 million Baht with the beginning cash on January 1, 2018 of 911 million Baht, therefore PTG had net cash of 996 million Baht as of December 31, 2018.

Accreditation	
Credit rating	BBB+/Tris
CG score	Excellence: 5 Stars
CAC	Certified CAC

Long-term Debt and Debenture Outstanding		
Year	Debentures (Baht mn)	Loans (Baht mn)
2019	1,700	1,203
2020	1,000	979
2021		639
2022	2,100	347
2023		297

#### Executive View and Business Direction for 2019

##### 2019's targets

- ✓ Number of Branches
  - Oil and LPG 2,000 stations
  - Non-oil (F&B, CVS, Services) 700 branches
- ✓ Oil Sales Volume Growth 16-20%
- ✓ EBITDA Growth 40-50%

**Increase market share from the continued sales growth.** PTG focuses on increasing sales volume in the existing service stations with full-liter standard oil quality along with modernizing the image of the service station to enhance more customer base. In addition, PTG will continue to focus on building relationships with customers through excellent service including providing convenience and satisfying the needs of customer groups in each area. Thus, PTG expects oil sales volume growth to be 16-20% from the previous year and targets to maintain market share in rank 2<sup>nd</sup> in the country.

**Emphasize on cost management and investment selection to create a competitive advantage** by using technology to help develop work processes, supply chain management and area management for maximum efficiency. In addition, PTG has maintained a policy of selecting and expanding service station for oil and LPG businesses only in areas with high economic growth and able to extend non-oil businesses of PTG and its partners. However, PTG targets to have 2,000 oil and LPG service stations and 700 non-oil service points.

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**Provide better customer experiences with PTG's networks and strong partners.** PTG focuses on creating values to customers through the benefits of the PT Max Card membership which is the center for connecting products and services under PTG's networks and partners to serve the lifestyle of the customers.

**Estimate of 2019's operating results.** According to the growth in sales volume and a back to normal of marketing margin as the crude price remained low, along with the accelerating of non-oil businesses with higher gross profit and managing expenses to be in the appropriate level, therefore, PTG expects the EBITDA growth rate to be 40-50% from last year.

In terms of CAPEX, PTG budgets its investment of approximately 3,500 million Baht, divided into investment in expansion and improvement of the main business of 2,500 million Baht, non-oil business of 500 million Baht, and new business of 500 million Baht. PTG will continue to build financial stability along with creating long-term value to the organization.