



PTG Energy Company Limited  
Management Discussion and Analysis  
Quarter 2/2019

Executive Summary

PTG Energy Company Limited, "PTG", steps into the fourth decade with the commitment of being Thailand's leading full-service energy company, and continues to build its network in other related businesses. The aim is to build strong growth and sustainable returns by practicing good governance along with developing the society and the environment.

In 2Q/2019, the overall economy of Thailand still faces challenges from the trade war situation that has affected the country's exports to slow down. This caused the overall oil consumption growth of the country to grow by only 3.1% YoY and 0.2% QoQ. The use of diesel fuel, which is the main fuel used in transportation, grew only 2.7% YoY and decreased 4.3% QoQ.

However, fuel consumption through service stations continued to grow at 6.0% YoY and increased 3.8% QoQ due to the growth of car sales volume in 2018 of 116,682 units, reflecting the increase of 22.2% YoY. This growth resulted in the increase in oil consumption through service stations in 2019. Nevertheless, there was a drop in the consumption of LPG fuel through station channel of 14.2% YoY because of the fuel switching from LPG to gasoline.

In terms of the oil sales volume of PTG, the growth continues to increase over the industry. In 2Q/2019, the sales volume of oil through all channels reached 1,202 million liters or grew 22.0% YoY and 8.4% QoQ, which the growth is higher than PTG's target at 16-20%. In addition, this growth enabled PTG to hold the 3<sup>rd</sup> rank in the country's total sales volume through all channels with the market share equal to 13.5%.

Meanwhile, PTG's oil sales volume through service stations accounted for 93.2% or equal to 1,120 million liters, increased by 20.9% YoY and 7.1% QoQ. Therefore, PTG has continued to maintain its 2<sup>nd</sup> rank of sales volume through service stations at 15.7% market share. The growth in oil sales volume of PTG was due to the expansion of the number of service stations and the same store sales growth of 8.7% YoY as a result of the increase in brand awareness and the standardized service stations. In addition, PTG also responded to the government's policy to support the use of diesel B20 fuel by rapidly expanding the diesel B20 service in PT stations. At the end of 2Q/2019, PTG provided the diesel B20 product in 303 branches all over the country to response to the customer needs.

Fuel Sales Volume (Million Liters)	2Q/2019	1Q/2019	2Q/2018	%QoQ	%YoY	1H/2019	1H/2018	%YoY
<b>Sales by Channel</b>								
Retail Channel	1,120	1,045	926	7.1%	20.9%	2,165	1,816	19.2%
Wholesales Channel	82	64	59	28.8%	38.8%	146	111	31.5%
<b>Total</b>	<b>1,202</b>	<b>1,109</b>	<b>985</b>	<b>8.4%</b>	<b>22.0%</b>	<b>2,311</b>	<b>1,927</b>	<b>19.9%</b>
<b>Proportion of Sales by Channel</b>								
Retail Channel	93.2%	94.2%	94.0%			93.7%	94.2%	
Wholesales Channel	6.8%	5.8%	6.0%			6.3%	5.8%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>			<b>100.0%</b>	<b>100.0%</b>	

In addition to the continuous growth in oil sales volume, the LPG volume sold through PTG's service stations also grew to 32.2 million liters, or rose by 39.8% YoY and 6.9% QoQ, even if the amount of LPG sold in the overall country has been continuously decreasing.

Regarding the Company's commitment of expanding the service to cover all customers nationally, as a result, PTG has a number of service stations and non-oil business branches in 2Q/2019 as follows:

Business Unit	No. of Branch	Business Unit	No. of Branch
Oil Station	1,804	Max Mart (Convenience Store)	177
LPG Station	149	Autobacs (Passenger Maintenance and Repair Service Center)	16
Punthai Coffee	225	Pro Truck (Commercial Maintenance and Repair Service Center)	8
Coffee World	86	Maxnitron Lube Change (Oil Lubricant Change Center)	46
Krua Phan Jit (Thai Style Restaurant)	1	Max camp (Rest Area)	11

As for financial performance in 2Q/2019, PTG's revenue from sales and services was 31,844 million baht, an increase of 17.6% YoY and 11.1% QoQ, due to the growth of oil sales volume and the continuously rise of revenue from non-oil businesses. Therefore, the gross profit of this quarter was 2,529 million baht, which grew 39.1% YoY, but dropped 0.3% QoQ as the domestic oil retail prices adjusted at a slower pace than the rise in its costs. However, PTG's gross profit portion from non-oil businesses slightly increased to 10.9% from 10.4% in the same period of last year, which

can break down into 3.7% from food and beverage business, 3.6% from LPG business, and 3.6% from Max Mart convenience store business and other businesses.

On the other hand, the selling and administrative expenses were 1,965 million baht, an increase of 20.7% YoY and 4.8% QoQ. This increase was from the expansion of the oil and non-oil businesses, and from the change in accounting standard on the reserve for employee benefits from 300 days to 400 days, according to the new labor law announced on April 5, 2019. By changing this accounting standard, employee expenses increased 34.7 million baht. From the above mentioned information, PTG, therefore, had EBITDA of 1,359 million baht, an increase of 53.4% YoY but a decrease of 5.3% QoQ. Moreover, the net profit was 426 million baht, increased 140.4% YoY but decreased 17.9% QoQ.

However, PTG will continue to increase its revenue and profit channels by expanding the services, both oil and non-oil businesses, and effectively utilizing existing assets. The Company will also link its membership system with a variety of partners to add more values to the cardholders. This could help to improve customer satisfaction while reduce costs in the long term.

#### **Important events in 2Q/2019**

##### **Opening deposit-withdrawal services for Krungsri bank account at Max Mart**

PTG together with Bank of Ayudhya Public Company Limited launches "Krungsri service is here", deposit and withdrawal of Krungsri bank accounts at the Max Mart convenience stores. All customers can make deposit transactions more conveniently by just having Krungsri bank account number and ID card. In addition, customers can withdraw money from Krungsri debit ATM cards, and Krungsri credit cards same as doing transactions via ATM to facilitate the convenience of customers in PT stations. The service is opened from 08:00-22:00 hrs. Nevertheless, PTG continues to increase the number of service branches and to provide variety services to its customers.

##### **New accounting standard No. 19**

The employee benefits of post-retirement benefit obligations according to the new accounting standard no. 19, there was an adjustment of compensation rates under the new labor law from 300 days to 400 days. The calculation of the change in benefit obligation used actuarial principles to measure the value of long-term employee benefits taking into account the investment principle of compound interest. This change incurred the additional employee expense of 34.7 million baht. The underlying amount included the historical data adjustment from 300 days to 400 days, which is a one-off expense of 21 million baht, and the normal accrual, adjusted to 400 days of 13 million baht.

### Operational guidelines for the second half of 2019 (adjusted)

During the first half of the year, PTG has seen a good trend of growth in oil sales volume, with the 2Q2019 growth of 22.0% YoY. Furthermore, the marketing margin tends to be at the appropriate level throughout the year. Plus, the revenue from the non-oil business has been growing as expected. Consequently, PTG sees the opportunity to expand investment to be in line with the market expansion. Thus, PTG aims to increase its investment budget from 3,500 million baht (divided into 2,500 million baht for oil business, 500 million baht for non-oil businesses, and 500 million baht for new business) to 4,000-4,500 million baht.

Moreover, the additional investment will be mainly used to expand the service stations on the main road in minor change format with full-service. The aim is to build a brand awareness to be widely known to the city people. Regarding this expansion, the number of service stations in Bangkok grew 6.8% from the year end 2018. The main source of investment will come from the EBITDA that PTG targets to increase by 40-50% or approximately 4,900-5,250 million Baht.

In addition, PTG maintains the target of number of service stations to 2,000 branches, the growth of oil sales volume by 16-20%, the growth of LPG sales volume by 55-60%, and the growth of EBITDA by 40-50%. Besides, PTG also emphasizes on building non-oil business brands which will be another important driving force of PTG in the future and developing services through PT Max Card to meet the customers' needs in each group more comprehensively.

## Financial Summary for 2Q/2019 and 1H/2019

Financial Summary (Baht million, unless stated)	2Q/2019	1Q/2019	2Q/2018	%QoQ	%YoY	1H/2019	1H/2018	%YoY
Revenue from sales and services	31,844	28,655	27,089	11.1%	17.6%	60,499	51,842	16.7%
Cost of sales and services	(29,315)	(26,118)	(25,271)	12.2%	16.0%	(55,433)	(48,120)	15.2%
<b>Gross profit</b>	<b>2,529</b>	<b>2,537</b>	<b>1,818</b>	<b>-0.3%</b>	<b>39.1%</b>	<b>5,065</b>	<b>3,722</b>	<b>36.1%</b>
SG&A	(1,965)	(1,875)	(1,628)	4.8%	20.7%	(3,841)	(3,186)	20.6%
Selling expenses	(1,681)	(1,635)	(1,389)	2.8%	21.0%	(3,316)	(2,743)	20.9%
Administrative expenses	(284)	(240)	(239)	18.3%	19.2%	(525)	(443)	18.4%
EBITDA	1,359	1,435	885	-5.3%	53.4%	2,794	1,834	52.3%
<b>Net profit</b>	<b>426</b>	<b>519</b>	<b>177</b>	<b>-17.9%</b>	<b>140.4%</b>	<b>945</b>	<b>447</b>	<b>111.4%</b>
Gross profit margin	7.9%	8.9%	6.7%			8.4%	7.2%	
SG&A as a % of revenue	6.2%	6.5%	6.0%			6.3%	6.1%	
% Selling expenses	5.3%	5.7%	5.1%			5.5%	5.3%	
% Administrative expenses	0.9%	0.8%	0.9%			0.9%	0.9%	
Operating profit margin	1.9%	2.6%	1.1%			2.2%	1.3%	
EBITDA margin	4.3%	5.0%	3.3%			4.6%	3.5%	
Net profit margin	1.3%	1.8%	0.7%			1.6%	0.9%	
Earnings per share (Baht)	0.26	0.31	0.11			0.57	0.27	
Return on Equity	29.9%	36.5%	14.2%			33.2%	17.9%	
Return on Total Assets	8.3%	10.3%	4.3%			9.2%	5.4%	
IBD to equity ratio (x)	1.65	1.60	1.82			1.65	1.82	

### 1H/2019 Financial Summary

PTG's total revenue from sales and services was 60,499 million baht, an increase of 16.7%YoY, where the revenue from sales and services from the oil business grew 16.0% YoY and from non-oil business including food and beverage business, convenience store business, commercial area management business and other businesses continuously increased by 36.8% YoY. The rise in revenue is the result of two main factors: 1. The total oil sales volume in the first half of 2019 reached 2,311 million liters or increased by 19.9% YoY. The oil sales volume increased due to the expansion of number of oil station by 8.3% YoY and the same store sales per station that has grown continuously since 1Q/2019. At the end of 2Q/2019, PTG had a total of 1,953 oil and LPG stations. 2. The retail oil price per liter of the first half of 2019 was 25.3 baht per liter, or decreased on an average of 3.4% YoY. However, the revenue from the oil business accounted for 96.9% of total revenue from sales and services.

On the other hand, the cost of sales and services was 55,433 million baht, an increase of 15.2% YoY. The rise in costs was the result of the increase in oil sales volume as mentioned above. However, the crude oil

price per barrel in the first half of 2019 averaged at 57.73 dollars per barrel, down from 65.55 dollars per barrel in the same period last year, or decreased by 11.9% YoY. Since the oil cost was in the lower level, there was no pressure on marketing margin. Therefore, the gross profit was 5,065 million Baht, an increase of 36.1% YoY.

Meanwhile, SG&A expenses were 3,841 million baht, up 20.6% YoY, as a result of the expansion of the oil and non-oil businesses to 2,459 stores, or an increase of 274 branches. Consequently, SG&A expenses, related to employee expense, rental and leasehold rights expenses, and depreciation expenses, increased to support business expansion as mentioned.

In summary, the Company had EBITDA for the first half of the year at 2,794 million Baht, up 52.3% YoY, which was in line with the target growth of 40-50%. Moreover, net profit was 945 million baht, up 111.4% YoY.

## 2Q/2019 Financial Summary

- **Revenue from sales and services** was 31,844 million baht, reflecting an increase of 17.6% YoY and an increase of 11.1% QoQ due to the following factors: 1. The increase in oil sales volume to 1,202 million liters or a rise of 22.0% YoY, beyond the target growth of 2019 at 16-20%. 2. The promotion of non-oil businesses to provide comprehensive customer service. Currently, there are 570 branches of non-oil businesses, where the sales from non-oil businesses grew 29.0% YoY. 3. The adjustment in the retail oil prices which decreased on average of 4.3% YoY, but increased on average of 2.7% QoQ.
- **Cost of sales and services** was 29,315 million baht, reflecting an increase of 16.0% YoY, correlating with the rise in sales volume as mentioned above. The cost of sales and services increased 12.2% QoQ due to the rebound in the crude oil price from the last quarter. The WTI crude oil price stepped up from 55 dollars per barrel in 1Q/2019 to 60 dollars per barrel in 2Q/2019, caused the cost per liter to increase 3.7% QoQ. Also, in the early 2Q/2019, the adjustment in retail oil price was behind the increased cost, hence the marketing margin decreased by 9.3% from 1Q/2019. Therefore, the gross profit was 2,529 million baht, grew by 39.1% YoY and decreased by 0.3% QoQ. The gross profit from oil and non-oil businesses accounted for 89.1% and 10.9% of the total gross profit, respectively.
- **SG&A expenses** was 1,965 million baht, reflecting an increase of 20.7% YoY and a rise of only 4.8% QoQ. The growth was from the higher SG&A expenses to support PTG's business expansion in both oil and non-oil businesses, but these growths were up in the downward trend due to the Company's cost management policy. The main expenses were still from employee-related expenses, rental and leasehold right expenses, and depreciation expenses.
  - **Employee-related expenses** was 775 million baht, reflecting an increase by 32.9% YoY and 9.2% QoQ. The increase in costs was still from 1. The branch expansion of oil and non-oil businesses.

Currently, PTG operates a total of 2,216 branches of the oil business and non-oil businesses nationwide with the commitment to deliver the best service experience to customers. 2. Employee retirement benefit obligations which were adjusted according to the new accounting standard number 19, by adjusting the compensation rate from 300 days to 400 days. Consequently, there were expenses recorded from the one-time adjustment of 21 million baht and the normal accrual adjusted to 400 days of 13 million baht.

- **Rental and leasehold right expenses** was 367 million baht, reflecting a growth of 15.0% YoY and a growth of only 0.3% QoQ. However, PTG emphasizes on the management of rental and leasehold right expenses with appropriate criteria. Currently, PTG has COCO (Company Owned Company Operated) branches accounted for 87% of all branches.
- **Depreciation expenses** was 391 million baht, reflecting an increase of 35.9% YoY and 10.2% QoQ. The growth of the expenses was from the continuous expansion of the service station, which currently focuses on full-service model in strategic locations, Bangkok, its vicinity, and large cities, in order to generate income from both oil and non-oil businesses. In addition, PTG opened 35 COCO station in this quarter.
- **EBITDA and Net Profit**, EBITDA was 1,359 million baht, reflecting a growth of 53.4% YoY in line with the target 40-50%. The increase was from the growth of oil sales volume, the continuing acceleration of non-oil business, and the effective cost reduction policy. On the other hand, the EBITDA decreased 5.3% QoQ due to the weaken marketing margin in the beginning of this quarter. Consequently, the net profit was 426 million baht, an increase of 140.4% YoY but a decrease of 17.9% QoQ, and net profit per share of the Company was 0.26 baht, rose from the previous year of 0.11 baht but dropped from the last quarter of 0.31 baht.

## Statement of Financial Position

Financial Position (Baht million)	2Q/2019	%	4Q/2018	%	Amount changes	% changes
Cash and current investment	1,152	5.3%	1,009	4.8%	143	14.2%
Trade, other receivables, short-term lending	1,305	6.0%	1,170	5.6%	135	11.5%
Inventories	1,828	8.4%	1,758	8.4%	70	4.0%
<b>Total current assets</b>	<b>4,285</b>	<b>19.7%</b>	<b>3,937</b>	<b>18.8%</b>	<b>348</b>	<b>8.8%</b>
Investment properties	363	1.7%	379	1.8%	-16	-4.2%
Property, plant, and equipment	11,445	52.6%	11,026	52.7%	419	3.8%
Prepaid leasehold right and land rental	2,946	13.5%	2,874	13.7%	72	2.5%
Investment in a joint venture	660	3.0%	679	3.2%	-19	-2.8%
Investment in associate	786	3.6%	805	3.8%	-19	-2.4%
General investment	723	3.3%	723	3.5%	-	0.0%
Intangible assets	207	1.0%	210	1.0%	- 3	-1.4%
Goodwill	53	0.2%	53	0.3%	-	0.0%
Other non-current assets	310	1.4%	254	1.2%	56	22.0%
<b>Total assets</b>	<b>21,778</b>	<b>100.0%</b>	<b>20,940</b>	<b>100.0%</b>	<b>838</b>	<b>4.0%</b>
Trade and other payables	5,181	23.7%	6,335	30.3%	-1,154	-18.2%
Short-term loans & loans due within 1 year	4,499	20.7%	4,518	21.6%	-19	-0.4%
Other current liabilities	216	1.0%	40	0.2%	176	440.0%
<b>Total current liabilities</b>	<b>9,896</b>	<b>45.4%</b>	<b>10,893</b>	<b>52.1%</b>	<b>-997</b>	<b>-9.2%</b>
Financial lease liabilities	297	1.4%	387	1.8%	-90	-23.3%
Long-term loans	5,263	24.2%	3,986	19.0%	1,277	32.0%
Deferred tax liabilities	49	0.2%	45	0.2%	4	8.9%
Other non-current liabilities	195	0.9%	153	0.7%	42	27.5%
<b>Total liabilities</b>	<b>15,700</b>	<b>72.1%</b>	<b>15,464</b>	<b>73.8%</b>	<b>236</b>	<b>1.5%</b>
Retained earnings	3,067	14.1%	2,479	11.9%	588	23.7%
Others	3,011	13.8%	2,997	14.3%	14	0.5%
<b>Total equity</b>	<b>6,078</b>	<b>27.9%</b>	<b>5,476</b>	<b>26.2%</b>	<b>602</b>	<b>11.0%</b>
<b>Total liabilities and equity</b>	<b>21,778</b>	<b>100.0%</b>	<b>20,940</b>	<b>100.0%</b>	<b>838</b>	<b>4.0%</b>

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## Financial position

As of June 30, 2019, PTG had the total assets of 21,778 million baht, reflecting an increase of 838 million baht or up 4.0% from the year end 2018. The main reasons were as follows 1. Trade and other receivables rose 11.5% from last year correlating with the rise in oil sales volume. In addition, PTG provided financial assistance to PPP Green Complex Company Limited ("PPPGC") (PPPGC is an associated company which PTG holds 40% shares) in short-term loans. This is to support the purchase of raw materials from farmers during the palm season and the early business operation until PPPGC is able to utilize 100% of production capacity at the beginning of the 4Q/2019. 2. Property, plant and equipment, and prepaid leasehold right and land rental rose to support PTG's expansion of integrated oil business and non-oil businesses in areas with high potential locations, such as Bangkok, its vicinities and large cities in order to increase its competitiveness and financial strength to generate income in the future.

Meanwhile, PTG had total liabilities of 15,700 million baht, an increase of 236 million baht or 1.5% from the year end 2018. This was a result of 1. The Company issued debentures worth a total of 1,400 million baht with a fixed interest rate of 3.63% and a maturity period of 3 years to replace matured debentures of 1,500 million baht. However, PTG aims to adjust the investment plan to be in line with its cash flow to create stability and financial strength. 2. The new accounting standards number 19 affected the retirement benefit obligations to increase 34.7 million baht. This value included the impact of the labor law adjustment that calculated the employee benefits from 300 days to 400 days, which is a one-time adjustment, and the regular accrual of each quarter. On the other hand, PTG shareholders' equity was 6,078 million baht, grew 602 million baht or 11.0% from the year end 2018, due to the increase of the Company's net profit.

### Sources and uses of funds statement for 2Q/2019 (million Baht)

Sources		Uses	
Cash from operations	1,673	Payment of interest and tax, net	245
Cash received from lending, and deposit guarantee	7	Investment in leasehold rights, PP&E, and intangible assets	2,081
Cash received from dividend and short-term investment, net	15	Short-term lending	64
Cash received from assets sold	2	Investment in subsidiaries, associates, and joint-ventures	2
Cash received from loans	1,257	Payment to creditors under the finance lease agreement	93
Cash received from payment of share subscription of a subsidiary	10	Dividend payment	334
		Cash increase	145
<b>Total</b>	<b>2,964</b>	<b>Total</b>	<b>2,964</b>

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## Cash flow summary for the 2Q/2019

For the 2Q/2019, PTG had net cash from operating activities of 1,428 million baht (after net deduction of interest and tax expenses of 245 million baht), up 16.6% from last year. The main reasons are as follows: 1. Profit before income tax for the period increased by 631 million baht from the previous year due to the target achievement 2. Depreciation and amortization expenses increased by 296 million baht from the previous year due to the expansion of branches to support new customer base and to provide service in more areas. Meanwhile, PTG had net cash used in investing activities of 2,123 million baht, a decrease of 19.9% from last year due to cash paid to purchase land, buildings and equipment which decreased by 360 million baht from the previous year in accordance with the strategy of selecting service stations in potential areas and in non-coverage areas. In addition, the net cash received from financing activities was 841 million baht, a decrease of 33.8% due to the repayment of short-term loans from financial institutions and matured debentures. Therefore, net cash and cash equivalents increased by 145 million baht, resulting in the net cash of 1,142 million baht at the end of the 2Q/2019.

Accreditation	
Credit rating (Tris)	BBB+
CG score	Excellent: 5 Stars
CAC	Certified CAC

Long-term liabilities and outstanding debentures (Million Baht)				
Year	Debentures	Maturity	Loans	Maturity
2019	1,400		700	727
2020		1,000		1,211
2021				878
2022		2,100		407
2023		3,100		3,818

## Executive view and business direction for the second half of 2019

2019's target (adjusted)

✓	Number of Branch	
	○ Oil and LPG	2,000 stations (maintain)
	○ Non-oil (F&B, CVS, Services)	700 branches (maintain)
✓	Oil Sales Volume Growth	+16-20% (maintain)
✓	EBITDA Growth	+40-50% (maintain)
✓	Investment Budget	4,000-4,500 million Baht (from 3,500 million Baht)

**The oil sales volume in the second half of the year is likely to continue growing.** From the fact that PTG has expanded its services in the Bangkok metropolitan area and large cities, therefore, PTG expects that the seasonal impact in the third quarter should be reduced due to the use of Mogas oil with a similar proportion to diesel. As a result, Mogas oil sale volume are often not affected by the rainy season. In addition, the expansion of branches and the continuous brand awareness building would help drive sales in the fourth quarter, which is considered the high season of the business due to the increase in transportation and travel. Currently, PTG's diesel oil sales accounted for 72% of the total oil sales volume.

**Adjustment of the investment plan to be in line with the growth of oil retail market, by adjusting the investment plan from 3,500 million baht to 4,000-4,500 million baht.** This is to support the growth of PTG's oil sales volume to increase and to match with the marketing margin trend that is back to a normal level. Therefore, PTG sees investment opportunities to expand the service station in Flagship model to create a stronger and more well-known brand awareness. The current number of branches in Bangkok and vicinity areas grew by 6.8% from the previous year. In addition, the main source of fund to finance the investment expansion will be from EBITDA which is expected to increase by 40-50% from last year at 4,900-5,250 million, which is close to the company's investment revision plan.

**Accelerating and building a non-oil business brand,** which PTG targets to be the main business driver of the Company in the future. During the first half of the year, PTG has introduced various marketing policies and campaigns to support such business, including the launch of franchises of the two coffee brands and the support of PT Maxnitron Racing Series 2019, in order to induce PTG's lubricant oil brand to be more well-known. In the second half of this year, PTG is still planning to drive and build a strong and well-known non-oil business brand. Within 2019, PTG expects that the proportion of gross profit from the non-oil business will increase to 15.0. % of total gross profit.