

Date: 10 November 2020

Subject: Management Discussion and Analysis for the Second Quarter ended 30 June, 2020

To: Director and Manager  
 The Stock Exchange of Thailand

Right Tunneling Public Company Limited (“the Company”) would like to clarify the consolidated operating results for the 6-month period ended June 30, 2020. The details are as follows:

Income Statement (Unit: Million Baht)	For the 6-month ended		Changes	
	June 30, 2020	June 30, 2019	Amount	Percentage
Revenue from construction	1,427.00	1,009.64	417.36	41.34
Sales of construction materials	14.51	14.04	0.47	3.35
Cost of construction	1,101.94	852.57	249.37	29.25
Cost of sales of construction materials	14.08	9.90	4.18	42.22
Gross profit	325.06	157.07	167.99	106.95
Other income	8.99	11.48	(2.49)	(21.69)
Profit (loss) from foreign exchange	(9.16)	8.57	(17.73)	(206.88)
Administrative expenses	116.27	106.17	10.10	9.51
Financial cost	(38.67)	(32.97)	(5.70)	17.29
Income tax expenses	(33.06)	(3.61)	(29.45)	815.79
Profit for the period	137.32	38.51	98.81	256.58

### **Revenue from Construction**

For the first six months of 2020, the company had revenue from construction of 1,427 million baht, which increased in the amount of 417.36 million baht or 41.34 percent when compared to the same period of 2019. By considering the increase in the income from domestic construction when compared to the first six months of 2019, because the Company recognized an increase in revenue from the Saraburi-Nakhon Ratchasima Double Tunnel Project, which is the major project of the Company, manhole and underground conduit project, and the increase in electric train projects. For foreign construction contractors, it was found that it increased when compared to the first six months of 2019 as a result of the company having 3 additional new construction projects in Laos in 2020 which leads to additional income in the first 6 months of 2020 of 33.97

Million baht, resulting in an increase in revenue from contractors in foreign countries, which can be divided into service income, details as follows

- Revenue from construction of tunnels and underground structures increased by 243.89 million baht, or an increase in 39.02 percent from the revenue recognition of the Saraburi-Nakhon Ratchasima Twin Tunnel Project, with the first six months of Year 2020 is equal to 577.12 million baht, together with the company has construction of water diversion tunnel and dam development improvement work in Cambodia, which commenced operations at the end of 2019 that lead in the Company's increasing revenues for the construction of tunnels and underground structures.
- The company has no income for dam construction. When compared to the first six months of 2019, the income decreased by 6.55 million baht due to the construction of the Company's 2 dams, which are the construction of the dam at Nam Kong, Laos. and the construction of soil dam at the head of the Mae Salum Reservoir. The company has completed the operation in 2019.
- Revenue from hydroelectric power plant construction contracted 53.43 million baht or decrease in the percentage of 81.99 due to hydroelectric power plant project in Uttaradit Province at the end of the project and pending installation of control panels, which faced problems in ordering equipment from India due to the Covid-2019 epidemic, which causing work to be done late than the schedule. As a result, the company could not yet recognize the revenue because the work has not yet been completed. The company is in the process of reserving the right to comply with government assistance measures for companies affected by the Covid-2019 epidemic.
- Revenue from underpass construction, pipe pushing method and pipe extraction method increased by 58.21 million baht or 54.93 percent, which an increase comes from the revenue recognition of the MRT Yellow Line Project around Lad Phrao Road – Samrong.
- Income from other construction contractors increases in the amount of 175.26 million baht or 84.70 percent from both domestic and foreign works. The income increased from road works on highways Floodgate construction project and other foreign construction works such as the Pagoda Stability and Geophysical Drilling Work in Myanmar, the Xekong 4 Dam in Lao PDR, and fix the leakage of the Outlet Conduit, Nam Luok Dam and Nam Ken Dam in Lao PDR, Duantri Dam Development Project in Cambodia, and Geological Exploratory Drilling in Luang Prabang in Lao PDR.

### Construction Costs and Gross Margins

In the first six months of 2020, construction costs increased by 249.38 million baht or 29.25 percent compared to the first six months of 2019, in line with revenue from construction services. For the proportion of construction costs compared with revenue from construction services, it was found that the proportion decreased from 84.44 to 77.22 percent as a result of the proportion of costs of salaries and wages for agencies. The decrease in cost ratio and depreciation cost ratio resulted in the reduction in cost-to-income ratio. In the first 6 months of 2020, the company has a cost-to-income ratio of various projects which improved due to new projects with high gross profit margin in the first 6 months of 2020. Compared with the same period of the previous year, such as the construction of a double track railway Map Kabao - Thanon Chira Junction, which is a relatively high gross margin event because it is a job that the company has high work experience from tunnel construction and effective machinery management.

The gross profit of the company for the first six months of 2020 increased by 167.99 million baht or 106.95 percent compared to the first six months of 2019. The increase in gross profit of the company is from the proportion of costs, salaries and agency wages, cost ratio, and the lower depreciation cost ratio because some machines have been fully depreciated but still in use in the project, which leads to the decrease in the cost-to-income ratio. In the first six months of 2020, the company has a better cost-to-income ratio of projects due to new projects with a high gross profit margin in the first six months of 2020 compared to the same period of the previous year. Especially for the construction of a double track railway and construction of a double track railway Map Kabao Section - Thanon Chira Junction with high gross margin. The company was able to manage project costs more efficiently, resulting in better cost management because there were some machines that had been fully depreciated but still in use in the project and from the additional work of projects with high gross margins which make the gross profit of the project better. As a result, the overall gross margin of the company is better compared to the same period of 2019.

### Administrative Expenses

For the first six months of 2020, the administrative expenses have increased by 10.10 million baht or 9.51 percent, The reason for the increase in administrative expenses is result from the cost of supporting the production that cannot allocate the cost of construction increase in the amount of 11.93 million baht or 112.15 percent due to the increased costs of the Company's central maintenance center and office salaries increased by 1.54 million baht or an increase of 8.71 percent, including an increase in remuneration of directors and management in the amount of 1.73 million baht or 46.29 percent , and an increase in employee pay bonuses in

the amount of 1.32 million baht, or 180.03 percent. Office salaries and employee bonuses increased due to the increase in salary rates and bonus pay rates.

**Net Profit**

For the first six months ended June 30, 2020, the company had a net profit of 137.32 million baht, representing 9.47 percent compared to the same period of 2019 as a result of projects in the first half of 2020 that still had gross profit in many big projects in both overseas projects and domestic projects. When comparing the proportion of administrative expenses to income, it was found that the administrative expenses had decreased, indicating that the Company had better management of expenses due to the fact that some machines were depreciated but still in use in the project and the reduction in the proportion of office salaries to income decreased. It shows that the company has a better revenue-generating performance. The decrease in the proportion of financial expenses resulted in the increase in the Company's net profit margin.

**Financial Position of the Company**

Financial Position (unit: million baht)	As of		Changes	
	June 30, 2020	December 31, 2019	Amount	Percentage
Total Assets	3,874.08	3,730.54	143.54	3.85
Total Liabilities	3,147.42	3,143.20	4.22	0.13
Total Shareholders' Equity	726.66	587.34	139.32	23.72
Debt to equity ratio (D/E Ratio) (Times)	4.33	5.35	(1.02)	(19.07)

**Total Assets**

As of June 30, 2020, the company had total assets of 3,874.08 million baht, which increased in the amount of 143.54 million baht from the end of 2019. The increase in assets is from trade accounts receivable in the amount of 48.70 million baht or 8.85 percent, which resulted from an increase in trade accounts receivable from unrelated parties and the cost of the completed construction company that has not been paid from the customer. It is the unbilled income item of the company, which the revenue is recognized according to the ratio of work completed deducts with the value of the construction that has been charged. The company had unbilled income equal to 1,410.64 million baht, which increase in the amount of 169.25 million baht from 2019, or 13.63 percent. Unbilled income of the project mainly come from the water tunnel project and the tunnel building in the amount of 852.22 million baht, the unbilled income from the road expansion project from 2 lanes to 4 lanes, Udon Thani province in the amount of 154.09 million baht, the double tunnel project in Saraburi - Nakhon Ratchasima in the amount 120.96 million baht and the construction of the flood gate in Loei Province. in the amount of 99.03 million baht.

### **Total Liabilities**

As of June 30, 2020, the company had total liabilities of 3,147.42 million baht, which increased from the period at the end of 2019 in the amount of 4.22 million baht. The slight increase is due to the Company's trade payable and other payables equal to 879.85 million baht. When compared to the year 2019, there was an increase in the amount of 135.45 million baht or 18.20 percent as a result of unrelated trade payables. The accrued expenses: salaries and accrued pay, such as salaries, bonuses and payroll: were mainly due to the increase in the number of employees and the increase in the salary rate in the past 2020, while other liabilities drop slightly.

### **Total Shareholder' Equity**

As of June 30, 2020, the Company had shareholders' equity equal to 726.66 million baht, which increased from the period at the end of 2019 by 139.32 million baht or 23.72 percent, The increase is due to the increase in the Company's operating results from the operating profit for the first six months of 2020 with a net profit of 137.32 million baht.

### **Debt to equity ratio**

As of June 30, 2020, the Company has the debt to equity ratio of 4.33 times. The company has lower debt to equity ratio compared to 2019 due to a greater increase in equity than an increase in total liabilities. The increase in shareholders' equity comes from unappropriated retained earnings due to the increase in the Company's operating results from the net operating profit for the first six months of the 2020 that the net profit was 137.32 million baht.

Please be informed accordingly.

Best regards,

(Mr. Chaiya Wonglappanich)

Deputy Managing Director (Management and Finance)

Right Tunnelling Public Company Limited