

Registration No. 0107555000341

AUCT-OP 033/2020

7 August 2020

Subject: Management Discussion and Analysis for the Operating Results of the second Quarter of 2020, ended 30 June 2020

To: The President of the Stock Exchange of Thailand

Union Auction Public Company Limited (“Company”) would like to submit the financial statements for the second quarter of 2020, which ended 30 June 2020. They were reviewed by the Company’s external auditor together with the explanation of the Management Discussion and Analysis for the Company’s operating results as follows:

The Impact of COVID-19 Pandemic in 2019

As the government has issued various measures to prevent and stop the spread of COVID-19 such as lockdown, travel restriction, pausing certain types of activities including the determination of curfew measures during the ended 1st quarter of 2020, resulting in the Company's auction activity must adapt to the 100% online auction method in April and May. The Company’s began to auction at the courtyard with a limited number of customers since mid-June onwards. After the government has measures to relax, the Company has planned for the situation and prepared by focusing on increasing the efficiency of online auction to boost confidence for buyers and sellers. The Company has adjusted various conditions to make accessing the online auction to be convenient and easy including the increase of inspection measures and grading the car. The Company has publicized to understand the use of online auction services, resulting there are more registering customers to participate auction with a greater proportion than the auction at the courtyard, therefore, the Company is able to achieved target sales.

The Company's overall performance in the second quarter of 2020 and the first six months of 2020

From the impact of COVID-19 and the auction system has changed to be online as mentioned above, resulting the Company be conducted the auction as usual as per the auction schedule. The Company's total revenue for the 2nd quarter of 2020 was 226.51 million Baht which increased by 25.0% compared with the same quarter of the previous year, from customer trust in online auctions resulting in the increase of success rate. Usually, the Company's business cycle in the second quarter of every year is a quarter with less operating results due to there are various holidays such as Songkran Day. The government's announcement to postpone Songkran holidays in 2020 to be the second half of the year for preventing the spread of COVID-19, therefore, the Company can be increased the auction rounds as that day, resulting in the Company's performance in the 2nd quarter of 2020 was the highest compared with the 2nd quarter of the previous year.

Most of the Company's costs are still semi-fixed costs which caused saving in regards to the size of the business. In addition, the Company is able to save some expenses during the online auction such as offsite auction rental fees, employee travel fees and money transportation fees due to the customers can pay by bank transfer. The increased expense was mainly from the discounted interest calculation to be the present value due to the implementation of TFRS 16: Leasing Agreement, in 2020 and the increase of property leasehold items to cover all lease agreements that meet TFRS 16, including the calculation of land leasehold depreciation in respect of prepaid lease payments that can be averaged over the lease term.

From the aforementioned results, there are various factors that support and affect the Company's auction management that focuses on the online auction management resulting the Company able to operate the business continuously and save some expenses and other factors as above. The company's net profit increased by 65.3% compared with the same quarter of previous year and 36.5% compared to the 1st quarter of 2020.

The Company's overall performance in the 6-month of 2020 was increased from the same period of the previous year. Total revenues were 461.75 million Baht increased by 21.4% and net profit increased by 19.8%, with gross profit margin and net profit margin increasing to 53.3% and 26.6%, respectively (compared with 51.8% and 26.9% in the first 6-month of 2019). Net profit margin slightly decreased as a result of financial costs from accounting records which has no any impact on cash flow.

The financial status was strength from the Company's operations and the absence of debt, resulting in the Company has cash remaining as of 30 June 2020 in the amount of 166.91 million Baht, the return on equity (ROE) was by 52.61% (45.27% as of 30 June 2019; 47.19% as of 31 December 2019).

The financial statements of the 2nd quarter of 2020 and the 6-month of 2020 are shown in accordance with the new financial reporting standards as follows:

(Unit: Million Baht)

Statement of Comprehensive Income	Quarter 2			Quarter 1		6-month		
	2020	2019	%YoY	2020	%QoQ	2020	2019	%YoY
Service revenue	225.64	179.50	25.7%	233.01	-3.2%	458.65	377.41	21.5%
Other revenues	0.87	1.72	-49.4%	2.23	-61.0%	3.10	3.09	0.3%
Total revenues	226.51	181.22	25.0%	235.24	-3.7%	461.75	380.5	21.4%
Cost of Service	-95.92	-91.95	-4.3%	-118.34	18.9%	-214.26	-181.76	-17.9%
Gross profit	129.72	87.55	48.2%	114.67	13.1%	244.39	195.65	24.9%
<i>Gross profit margin (%)</i>	<i>57.5%</i>	<i>48.8%</i>	<i>8.7%</i>	<i>49.2%</i>	<i>8.3%</i>	<i>53.3%</i>	<i>51.8%</i>	<i>1.4%</i>
Profit from operating activities	94.42	53.79	75.5%	75.90	24.4%	170.32	128.52	32.5%
Financial Cost	-5.66	0.00	-100.0%	-5.11	-10.8%	-10.77	0.00	-100.0%
Income tax	-17.95	-10.95	-63.9%	-18.91	5.1%	-36.87	-26.12	-41.2%
Net profit	70.81	42.84	65.3%	51.87	36.5%	122.68	102.40	19.8%
<i>Net profit margin (%)</i>	<i>31.3%</i>	<i>23.6%</i>	<i>7.6%</i>	<i>22.0%</i>	<i>9.2%</i>	<i>26.6%</i>	<i>26.9%</i>	<i>-0.3%</i>
Other comprehensive income:								
Actuarial loss-net of income tax	-	-	-	-2.80	100.0%	-2.80	0.00	-100.0%
Comprehensive income for the period	70.81	42.84	65.3%	49.07	44.3%	119.88	102.40	17.1%

Remarks: %YoY is the rate of change compared to the previous year and %QoQ is the rate of change compared to the previous quarter.

The effect of TFRS 16: Lease Agreement

In 2020, the effect of TFRS 16: Lease Agreement resulting in the method of accounting was changed from rental recognition to be depreciation of property rights and finance costs arising from the calculation of discounted interest in recognizing lease liabilities with present value. This matter is causing an impact on expenses and net profit in the 6-month of 2020 amounting to 11.86 million Baht. In the 2nd quarter of 2020, the Company has adjusted the leasehold right to cover all lease agreements that meet TFRS 16, including the calculation of the land leasehold depreciation in respect of the prepaid lease by averaging over the remaining term of the lease

Income Statement	Quarter 2/2020			Jan - Jun 2020		
	Existing	Adjustment	New	Existing	Adjustment	New
	accounting standards	TFRS16	accounting standards	accounting standards	TFRS16	accounting standards
Revenues	226.51		226.51	461.75		461.75
Expenses						
Cost of services	(83.77)		(83.77)	(214.26)		(214.26)
Right of use assets depreciation		(12.15)	(12.15)		(33.18)	(33.18)
Land rental and compensation for right to lease land	(18.23)	18.23	-	(35.36)	35.36	-
Total cost of services	(101.97)	6.09	(95.92)	(216.44)	2.18	(214.26)
Service & Administrative expenses	(35.99)		(35.99)	(72.92)		(72.92)
Right of use assets depreciation		(0.18)	(0.18)		(4.24)	(4.24)
Land rental and compensation for right to lease land	(1.12)	1.12	-	(2.36)	2.36	-
Total service & Administrative expenses	(37.11)	0.94	(36.17)	(75.28)	(1.88)	(77.16)
Finance revenue						
Finance cost		(5.66)	(5.66)		(10.77)	(10.77)
Current income tax charge (pay to Revenue Department)	(20.04)	-	(20.04)	(37.60)	-	(37.60)
Deferred tax						
- Adjusted once when changing accounting standards					(4.93)	(4.93)
- Deferred tax	0.94	1.14	2.08	2.11	3.54	5.66
Income tax expenses reported in profit or loss	(19.10)	1.14	(17.95)	(35.49)	(1.38)	(36.87)
Net profit	68.33	2.51	70.81	134.54	(11.86)	122.68

Revenue

The Company had service revenue in the 2nd quarter of 2020 of 225.64 million Baht, increased by 46.14 million Baht or 25.7% from the same quarter of the previous year due to the success rate of auction has been increasing but it was decreased by 7.37 million Baht or 3.2% from the 1st quarter of 2020. In the 1st quarter of 2020, the Company had revenue from NBTC's 5G auction in amount of 14.5 million Baht, which was included in other auction revenue, while the car auction revenue was by 3.0% higher than the previous quarter.

For the 6-month of 2020, the Company had service revenue in the amount of 458.65 million Baht, increased by 21.5% compared with the same period of 2019, due to the revenue of car auctions increased by 17.6% and the revenue of moving fees increased by 26.1% compared with the previous year.

Service revenue consists of:

(Unit: Million Baht)

Service Income	Quarter 2			Quarter	Changing	6-month		
	2020	2019	% QoQ	1/2020	% QoQ	2020	2019	% YoY
1) Revenue from Vehicle and Agricultural Vehicle Auctions	177.17	142.98	23.9%	169.40	4.6%	346.56	298.82	16.0%
2) Revenue from Motorcycle Auctions	18.26	15.04	21.4%	20.21	(9.6%)	38.47	31.53	22.0%
3) Relocation Fee Income	26.48	18.74	41.3%	25.76	2.8%	52.24	41.44	26.1%
4) Revenue from Other Auctions	3.73	2.74	36.0%	17.65	(78.9%)	21.38	5.63	280.1%
Total	225.64	179.50	25.7%	233.01	(3.2%)	458.65	377.41	21.5%

Due to the slowdown of the car industry and car hire purchase loans with lower growth in the first quarter of 2020 which decreased by 6.1% while non-performing loans (NPL) increased in the first quarter of 2020 at the rate of 2.09%, resulting in the volume of cars flowing into the auction system. The Company has planned to be ready to handle the impact of government measures for preventing the spread of COVID-19 by speeding up understanding, adjusting methods to make it more convenient for customers to apply and online auction. In addition, the Company has publicized to reach end-user and the target group of customers, resulting the Company's sales in the second quarter were more than the expected target.

Quarterly New Vehicle Sales

	2020		2019				2018			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
No of Vehicles	127,362	200,064	245,705	238,077	260,221	263,549	295,155	257,466	252,025	237,093
%QoQ Difference	-36.3%	-18.6%	+3.2%	-8.5%	-1.3%	-10.7%	+14.6%	+2.2%	+6.3%	-5.5%
%YoY Difference	-51.1%	-24.1%	-16.8%	-7.5%	+3.3%	+11.2%	+17.6%	+22.2%	+26.3%	+12.6%

Source: Toyota Motor Thailand Company Limited's website

Cost of Service

The cost of service in the 2nd quarter of 2020 was 95.92 million Baht, increased from the 2nd quarter of 2019 at a rate of 4.3% compared with the service income which increased by 25.7%. Due to the Company can be able to save costs from the auction courtyard to be 100% online auction during April and May. In addition, the Company has adjusted the leasehold right to cover all lease agreements that meet TFRS 16,

including the calculation of the land leasehold depreciation in respect of the prepaid lease that can be averaged over the lease term.

The cost of service for the 6-month of 2020 was 214.26 million Baht, increased by 17.9% from the 6-month of 2019 consists of higher transportation costs as a result of the increasing number of vehicles entering the auction system. The increase of employee costs is the result of more employees and more working hours to support business growth and workloads.

Gross Profit

The gross profit for the 2nd quarter of 2020 was 129.72 million Baht, increased by 48.2% from the 2nd quarter of 2019 and increased by 13.1% from the 1st quarter of 2020. The gross profit for 6-month of 2020 was 244.39 million Baht increased by 24.9% from 6-month of 2019. This was the direct result of increased revenue, especially due to the increased number of auctioned vehicles by 26.2% in the 2nd quarter of 2020 compared with the 2nd quarter of 2019 and increased by 20.9% during the 6 months of 2020 compared with the same period in the previous year.

For 6-month of 2020, the gross profit margin increased by 53.3% from 51.8% in 6-month of 2019 due to the cost of service savings as mentioned above including the operating system has been continuously developed to be more efficient.

Services and Administrative Expenses

Services and administrative expenses in the 2nd quarter of 2020 was 36.17 million Baht increased from the 2nd quarter of 2019 by 35.49 or 1.9%. Services and administrative expenses in the 6-month of 2020 was 77.16 million Baht increased by 9.9 from the 6-month of 2019. The increase expenses were from the employee costs is the result of more employees and more working hours to support the increased number of cars to auction and increased property depreciation fee from investment and property management.

Finance cost

The financial costs arise from the calculation of the discounted interest in the recognition of the lease liability at the present value of the lease agreement as per TFRS 16. In the 2nd quarter of 2020, the Company's financial costs was 5.66 million Baht and 10.77 million Baht for the 6-month of 2020.

Net Profit

For the 2nd quarter of 2020, the Company's net profit was 70.81 million Baht, which increased by 65.39% from the year 2019. The net profit for the 6-month of 2020 was 122.68 million Baht, which increased by 19.8% from the 6-month of 2019. The number of cars to finish auction increased from the online auction and the increase of auction rounds. This was mainly due to the increase in the number of cars auctioned through online auction and increasing auction rounds.

Statement of Financial Position

(Unit: Million Baht)

Statement of Financial Position	30 June 2020	31 December 2019	%YoY
Total Assets	1,720.81	845.40	103.5%
Owner's Equity	499.69	517.28	(3.4%)
Unappropriated Retained Earnings	164.44	182.03	(9.7%)
ROA (%)	26.09	37.00	
ROE (%)	52.61	47.19	

The total assets as of 30 June 2020 were 1,720.81 million Baht, which increased by 875.62 million Baht from 31 December 2019, and total liabilities were 1,221.12 million Baht, which increased by 893.21 million Baht as a result of the implementation of TFRS 16. This resulted in the assets and liabilities in the statement of financial position will be affected by the recognition of the right-of-use assets and lease liabilities.

The total shareholders' equity is equal to 499.69 million Baht, which decreased by 88.41 million Baht or a 17.59% decreased from 31 December 2019 due to the decrease of retained earnings from the allocation of 137.5 million Baht dividends in 2019.

Cash Flows Statement

(Unit: Million Baht)

Cash Flows Statement	For the first 3 months period			
	2020	2019	Difference	%YoY
Net Cash from Operating Activities	327.21	204.58	122.63	59.9%
Net Cash (Used) from Financing Activities	(165.63)	(109.98)	(55.65)	(100.0%)
Cash Increase (Decrease)	98.22	40.48	57.74	142.6%

(Unit: Million Baht)

Cash Flows Statement	For the first 3 months period			
	2020	2019	Difference	%YoY
Beginning Cash	68.69	111.15	(42.46)	(38.2%)
Ending Cash at December 31, 2019	166.91	151.63	15.28	10.1%

For the 6-month of 2020, the Company had net cash flow from operating activities in the amount of 327.21 million Baht, net cash flow used from investing activities of 63.36 million Baht. The most of which was cash paid for short-term investments for fixed deposits and investment in property, buildings and equipment for 23.04 million Baht according to the business development plan: head office, Rangsit, Khon Kaen, Lampang and Srisaket. The net cash flow used from financing activities was affected by the TFRS16, with the payment of the lease liabilities was in the amount of 17.39 million Baht. However, the change in accounting standard have not any impact on cash flow. The cash flow as mentioned above resulted in the Company having cash and cash equivalents as at the end of 31 December 2020 equal to 166.91 million Baht or 10.1% higher than the same of the previous year.

Trends for the third quarter of 2020

The results of various measures that the government has issued restrictions including the moratorium measures which financial institutions have issued to support the government policy to help debtors, causing all sectors to have to adapt the new ways to find opportunities and channels for doing new business. The Company has monitored the situation, adjusted to the rapidly changing business and speeding up more ways to find cars from others who were not financial institutions.

Please be informed accordingly.

Yours sincerely,

(Mr. Varunyoo Sila)

Director and Managing Director

Authorized signatory

Company Secretary/ Investor Relations

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