SC. 136/62/SJ

12 November 2019

Subject: Management Discussion and Analysis for the third quarter ended 30 September 2019

To: Directors and Managers

The Stock Exchange of Thailand

Management Discussion and Analysis of operating results and financial position

Overview of the past results' operation

The Company operates in telecommunication business by providing telecommunication services through nationwide fiber optic network and providing installation of telecommunication infrastructure. On 8 May 2012, the Company obtained telecommunication license type 3 from National Broadcasting and Telecommunication Commission (NBTC) in which, allowed the Company to own the network and rendering service through the mentioned network. The period of license is 15 years. The Company has started to construct core fiber optic network since 2012 in which the fiber optic were installed along with telegraph poles that the Company has 30 years' right of way since 19 October 2012 from The State Railway of Thailand. The Company has also constructed the main trunk routes and sub-routes along with the road through the poles as to connect to customers. The Company has launched a service under the network called "Interlink Fiber Optic Network" in June 2013.

In 2014, the Company has entered into data center business by acquiring assets from Interlink Communication Public Company Limited ("ILINK") including building and equipment as to provide data center space services for companies and organizations according to their needs. The data center services have been operated in October 2014.

According to the policies of the government, Digital Economy and Thailand 4.0, they are to use information technology to apply to the economic and social activities, by focusing on the development of digital infrastructure and aiming to provide stability data connection in all areas with adequately supply for demand and could be access at a reasonable cost, as to lead to further development of the nation in both economic and social aspects in efficiency way. These policies are important to help promote the growth of information and communications technology industry (ICT) of Thailand and the Company as well.

For the three-month period ended 30 September 2019, the Company has total revenue of Baht 750.71 million or increasing by Baht 327.52 million or 77.39% comparing to the same period of prior year. In addition, the Company has net income of Baht 48.39 million or increasing by Baht 14.25 million or 41.74% comparing to the same periods of prior year as well.

Analysis of Operating Results

1. Revenues

For the three-month period ended 30 September 2019, the Company has total revenues of Baht 750.71 million in which they were increased from the prior year by Baht 327.52 million or 77.39% as presented table below.

Types of Service	30 September 2019		30 September 2018		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Service income	746.14	99.39	416.20	98.35	329.94	79.27
Other income	4.57	0.61	6.99	1.65	(2.42)	(34.60)
Total revenues	**750.71**	**100.00**	**423.19**	**100.00**	**327.52**	**77.39**

1.1. Service incomes

Type of Service	30 September 2019		30 September 2018		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
1. Service income from network rendering	**214.03**	**28.69**	**164.96**	**39.63**	**49.07**	**29.75**
2. Service income from network installation						
- Service income from network installation	503.19	67.44	228.08	54.80	275.11	120.62
- Service income from network connection	2.64	0.35	1.10	0.27	1.54	140.00
Total service income from network installation	**505.83**	**67.79**	**229.18**	**55.07**	**276.65**	**120.71**
3. Service income from data center space						
- Service income from data center space	18.49	2.48	16.49	3.96	2.00	12.13
- Other service income	7.79	1.04	5.57	1.34	2.22	39.86
Total Service income from data center space	**26.28**	**3.52**	**22.06**	**5.30**	**4.22**	**19.13**
Total service incomes	**746.14**	**100.00**	**416.20**	**100.00**	**329.24**	**79.27**

Service incomes are divided into 3 categories as follows.

1.1.1. Service income from network rendering

Service income from network rendering is categorized into various types such as Interlink MPLS IP-VPN, Interlink Wavelength, Interlink Dark Fiber, and Interlink IPLC which the Company has started the services since June 2013.

For the three-month period ended 30 September 2019, the Company had service income from network rendering for Baht 214.03 million or represented 28.69% of total service incomes. The service income from network rendering of 2019 increased from 2018 by Baht 49.07 million or 29.75% because of the increasing of customers which is the normal growth in every quarter. However, in this quarter, the customers' budget was slowed down resulting in the Company being unable to recognize revenue as usual. The Company expected that the situation will be resolved in the 4th quarter of 2019.

1.1.2. Service income from network installation

Service income from network installation is related to the construction of telecommunication hi-speed network and is categorized into 2 types as follows.

1) Service income from network installation in which recognizes revenue when the Company satisfies a performance obligation by transferring services to customers over time in accordance with term of each service contract with customers.

2) Service income from network connection in which recognizes revenue once the service has been completed.

For the three-month period ended 30 September 2019, these services generated revenue for Baht 505.83 million or 67.79% of total service income which can be divided to service income from network installation of Baht 503.19 million and service income from network connection of Baht 2.64 million. The major projects of this period are such as the project of providing high-speed internet service in remote area (USO Phase 2) which recognized revenue of Baht 412.49 million, and the project in contractor of communication system for DMS which recognized revenue of Baht 32.04 million.

1.1.3. Service income from data center space

The Company has operated data center space service in October 2014 after acquiring assets from ILINK.

For the three-month period ended 30 September 2019, the Company had service income from data center space of Baht 26.28 million or 3.52% of total service incomes. It increased because of the electricity charged to customers and the revenue sharing from Cloud Service. The occupancy rate of data center is 95%.

2. Costs and expenses

The major costs of the Company are such as costs of services, service expenses, administrative expenses, and finance cost. For the three-month period ended 30 September 2019, the total costs and expenses was Baht 687.15 million as followings:

2.1. Costs of services and gross profit margin

Costs of services are main expenses of the Company. For the three-month period ended 30 September 2019, cost of services was Baht 624.07 million. It was higher than the prior year by 91.53% which was aligned with the increasing of revenue. The table below illustrated the components of costs of services and their gross profit margin.

	30 September 2019		30 September 2018	
Service Costs	**Million Baht**	**GPM (%)**	**Million Baht**	**GPM (%)**
Cost of network rendering	180.08	15.86	126.25	23.47
Cost of network installation service	426.25	15.73	186.19	18.76
Cost of data center space service	17.74	32.48	13.40	39.23
Total costs of services	**624.07**		**325.84**	

2.1.1. Cost of network rendering

For the three-month period ended 30 September 2019, the Company had cost of network rendering of Baht 180.08 million in which resulting to gross profit margin of network rendering service was at 15.86% which increased comparing to the prior year, mainly because of the unable to recognize revenue as mention above, the increasing in repair and maintenance expenses during flood period to maintain the service, and the increasing of cost of service for the project of providing mobile broadband and high-speed internet service in border area (USO Phase 1). The major expenses are such as depreciation expenses, repair and maintenance expenses, rental space to install the network expenses, interconnection of network expenses, and employee benefit expenses which represented 30.27%, 16.30%, 14.44%, 14.04%, and 6.55% of total cost of network rendering for the three-month period ended 30 September 2019, respectively.

2.1.2. Cost of network installation service

For the three-month period ended 30 September 2019, the Company had cost of network installation service of Baht 426.25 million in which resulting to gross profit margin of installation service was at 15.73%. The gross profit margin of 2019 decreased comparing to prior year because of the project in contractor of communication system for DMS which gross profit margin is lower than 20%. Major costs of network installation service are such as material cost and installation cost.

2.1.3. Cost of data center space service

For the three-month period ended 30 September 2019, the Company had cost of data center space service of Baht 17.74 million in which resulting to gross profit margin of data center business was at 32.48%. The gross profit margin decreased due to the change in estimated useful lives of battery from 5 years to 3 years according to the actual, and the major overhaul of data center operated since 2014. Major costs of data center space service are such as depreciation expenses, utilities expenses, and employee benefit expenses.

2.1.4. Gross profit and gross profit margin

For the three-month period ended 30 September 2019, the Company had gross profit of Baht 122.07 million increased by Baht 31.70 million comparing to the prior year. The gross profit margin of 2019 was at 16.36% which decreased from 2018 which the gross profit margin was at 21.71% because of the decrease in gross profit margin as stated above.

2.2. Finance costs

For the three-month period ended 30 September 2019, the Company had finance costs of Baht 31.70 million. The major of finance costs are interest expenses from loans that increasing in the line with loan principal amount. As of 30 September 2019, the Company had short-term loans from financial institutions amounted to Baht 2,201.04 million, long-term loans from financial institution amounted to Baht 1,477.13 million, and finance lease liabilities amounted to Baht 54.87 million (As of 30 September 2018: short-term loans from financial institutions amounted to Baht 832.24 million, long-term loans from financial institution amounted to Baht 1,769.23 million, and finance lease liabilities amounted to Baht 49.14 million).

2.3. Net profit and net profit margin

The Company's net profit for the three-month period ended 30 September 2019 was Baht 48.39 million and the net profit margin was at 6.44% in which they were higher than that in the same period in 2018 which net profit was Baht 34.14 million and the net profit margin was at 8.06%. The increase mainly because of growth of service income as described above.

2.4. Return on Equity (ROE)

ROE as of 30 September 2019 is 10.97%.

Financial Position

1. Assets

As at 30 September 2019, the Company had total assets of Baht 6,517.75 million or 20.35% of increasing compared to Baht 5,415.44 million at the end of 2018. Major assets are such as cash and cash equivalent, trade accounts receivable, accrued revenue from network installation service, and fixed assets and telecommunication networks which were presented as at 30 September 2019's figures by 2.05%, 8.97%, 21.35% and 58.26% of total assets, respectively. The significant accounts that were notable changed were such as

1) Trade and other receivables, net, increased because the Company billed for the project of providing mobile broadband and high-speed internet service in border area (USO Phase 1) and the project in contractor of communication system for DMS which are mega projects, and expected to collect within Quarter 4 2019;

2) Accrued revenue, increasing according to complete work but not yet billed; and

3) Fixed assets and telecommunication networks, increasing from expanding as to support sales and increase its coverage as well as its stability.

2. Liabilities

As at 30 September 2019, the Company had total liabilities of Baht 4,850.50 million or increased by 27.07% comparing to Baht 3,817.07 million at the end of 2018. Mainly, the increasing is from the proceeds from short-term loans from financial institutions by Baht 1,164.09 million and advance received from network installation service by Baht 101.92 million. However, the Company paid for long-term loans from financial institution by Baht 257.94 million in 2019.

Major liabilities are such as short-term and long-term loans from financial institutions and trade and other payables that they are approximately 75.83% and 17.78% of total liabilities as at 30 September 2019, respectively.

3. Equity

As at 30 September 2019, the Company had equities of Baht 1,667.25 million or increased by 4.31% comparing to Baht 1,598.37 million at the end of 2018. The shareholders' equity increased by Baht 134.31 million as a result of the nine-month period operation results. The Company paid dividends by Baht 57.00 million. Moreover, the Company has adopted the new Thai Financial Reporting Standards (TFRS) no. 15, Revenue from contracts with customers from 1 January 2019 under the modified retrospective approach and the comparative figures have not been restated. The opening balance of retained earnings was decreased by Baht 8.44 million by the impacts of adoption of TFRS 15.

4. Capital Structure

The Company has debt to equity ratio at 2.91 times as at 30 September 2019 that is increased from 2.39 times of 2018. The significant increase is due to the proceeds from loans from financial institution to payment for purchases of fixed assets and telecommunication networks and investing in network installation service. In addition, the Company has debt exclude project finance to equity ratio at 1.91 times as at 30 September 2019.

In addition, the Company has to comply to 2 conditions of debt covenant as follows:

1) Loans from financial institution to equities and loans from related party must not be greater than 2 times; and

2) DSCR must not be less than 1.2 times.

As at 30 September 2019, the Company has the above ratios at 2.20 times and 1.20 times, respectively. However, the financial institution will evaluate at the end of fiscal year. In addition, the financial institution just approved to increase the ratio of loans from financial institution to equities and loans from related party from 2 times to 2.5 times.

Please be informed accordingly.

Yours sincerely,

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