

Triple i Logistics Public Company Limited
Management Discussion and Analysis Quarter 3/2018

Management Discussion and Analysis

Four consecutive quarters of growth

Revenue of 4 core business of the Company, namely air freight business, sea freight and inland transport business, logistics management business and chemical and dangerous goods logistics business, during the first 9 months of the year 2018 continued to grow with growth rate of over 25.8% from the same period of last year. In Quarter 3/2018, the Company's total revenues had increased by 37.5% compared to that of the same quarter of last year. Net profit continued to grow due to the group company's strategy to expand into new business. In Quarter 3/2018, the Company's net profit had increased by 67.4% compared to that of the same quarter of last year.

Growth through strategies for business expansion and joint investment

Airport warehouse business at Donmuang Airport began to generate satisfactory return. There was substantial growth in both volume and revenue from sea freight and inland transport business, which generated the highest growth among all businesses. This was due to cooperation with partner such as Rizhao Shipping Lines from China and realization of revenue from joint investment companies, particularly DG Packaging Pte., Ltd. in Singapore which the Company has acquired shares in DG Packaging Pte., Ltd. on 2 July 2018, which had impact on overall operating performance of the group company. In addition, other joint investment companies of the group company continue to generate return.

Summary on Operating Performance for Quarter 3/2018

Unit : Million Baht	Quarter 3/2017	Quarter 3/2018	% Change + / (-)	Quarter 2/2018	Quarter 3/2018	% Change + / (-)
Total revenue	534.0	734.4	37.5%	700.1	734.4	4.9%
Gross profit	123.7	128.5	3.9%	123.7	128.5	3.9%
Gross profit margin (%)	23.2%	17.5%	(5.7%)	17.7%	17.5%	(0.2%)
Net profit attributable to owners of the parent	26.1	43.7	67.4%	38.4	43.7	13.8%
Net profit margin (%)	4.9%	5.9%	1.0%	5.5%	5.9%	0.4%

For Quarter 3/2018, the Company generated total revenue of Baht 734.4 million, an increase from those of the same period of last year and Quarter 2/2018 by 37.5% and 4.9% respectively. This was resulting

from overall services of all 4 core businesses, particularly air freight business and sea freight and inland transport business.

Gross profit of the group company in Quarter 3/2018 was Baht 128.5 million, a slight increase from those of the same period of last year and the previous quarter. The gross profit margin was 17.5%, a decrease from those of the same period of last year and Quarter 2/2018. The decrease was partially due to increase in costs of rendering services and the strengthening of Thai Baht against US dollar.

Net profit of the Company in Quarter 3/2018 was Baht 43.7 million, an increase by Baht 17.6 million or 67.4% increase from that of Quarter 3/2017 or increase over 13.8% from that of Quarter 2/2018. The net profit margin increased from 4.9% in the same quarter of last year to 5.9% due to significant increase in revenue from sea freight and inland transport business and increase in share of profits from investments in associates and joint ventures.

Operating Performance for the first 9-month of 2018

Unit : Million Baht	9-month 2017	9-month 2018	% change + / (-)
Total revenues	1,619.8	2,037.5	25.8%
Gross profit	413.6	380.1	(8.1%)
Gross profit margin (%)	25.5%	18.7%	(6.8%)
Net profit attributable owners of the parent	109.5	107.9	(1.5%)
Net profit margin (%)	6.8%	5.3%	(1.5%)

For the first 9 month of 2018, there was growth in revenue compared to that of the same period of last year of over 25.8% to Baht 2,037.5 million. The gross profit for the first 9 month of 2018 was Baht 380.1 million or equivalent to gross profit margin of 18.7%, a decrease from that of the same period of last year. This was mainly due to the strengthening of Thai Baht against US dollar since first-half of the year. In addition, during the first 6 month of 2017, the Company wrote-off payables from its book as it was able to negotiate and agree on the long-outstanding fees with an airline. As a result, the Company's gross profit margin increased. Due to proper management, selling and administrative expense increased only by 1.4% compared to that of the same period of last year. Hence, net profit for the first 9 month of 2018 was Baht 107.9 million, a slight change compared to that of the same period of last year.

Operating Performance by Business Unit

Business Unit	Revenue (Million Baht)			% Total Revenues	Gross Profit (Million Baht)		
	9-month of 2017	9-month of 2018	% Change + / (-)		9-month of 2017	9-month of 2018	% Change + / (-)
	1. Air freight	1,303.1	1,660.5		27.4%	72.4%	272.4
2. Sea freight	60.3	92.3	53.1%	4.0%	26.3	55.1	109.5%
3. Logistics management	77.0	101.4	31.7%	4.4%	28.7	28.5	(0.7%)
4. Chemical and dangerous goods logistics	404.0	427.9	5.9%	18.7%	107.2	100.4	(6.3%)
5. Other business	11.1	11.3	(1.8%)	0.5%	3.9	3.9	(0.1%)
Total	1,855.5	2,293.4	23.6%	100.0%	438.5	388.2	(11.5%)
Net of intercompany transactions	1,619.8	2,037.5	25.8%		413.6	380.1	(8.1%)

1) Air freight business

Air freight business is a core business of the Company as majority of its revenues derives from such business. The business generated revenues of 72.4% of the Company's total revenues for the first 9-month of 2018 or Baht 1,660.5 million. There was an increase of revenue by 27.4% compared to that of the same period of last year due to increase in service volume, particularly general sales agent for airlines (GSA) and additional revenue from new airport warehouse at Donmuang Airport which opened since January 2018. The airport warehouse service is a supplementary service to GSA business.

However, gross profit for the first 9 month of 2018 was Baht 200.3 million, a decrease by Baht 72.1 million or 26.5% from that of the same period of last year. This was due to the strengthening of Thai Baht during the first half of the year and increase in cost of sales. As a result, gross profit from GSA business had decreased.

The Company expanded its air cargo terminal services at Donmuang Airport since January 2018 and the operating results of such service was satisfactory. For Quarter 3/2018, gross profit margin was as high as 20.0%, compared to gross profit margin of 4.3% for the first-half of the year.

2) Sea freight and inland transport business

There was a tremendous growth in sea freight and inland transport business. For the first 9-month of 2018, the business generated Baht 92.3 million in revenue, an increase by 53.1% compared to the last year. This was due to appointment of the Company as sales agent of Rizhao Port (Hong Kong) Shipping from China. The Company had begun to provide such service since the middle of December 2017.

Gross profit was Baht 55.1 million, doubling that of the same period of last year, which was in line with increased revenue and increased service volume from the aforementioned shipping line. Gross profit margin was as high as 60%. In addition, share of profits from investments in associates and joint ventures namely CK Line (Thailand) Co., Ltd. (CKT) and ECU Worldwide (Thailand) Co., Ltd., which form part of sea freight and inland transport business, also increased.

3) Logistics management business

Revenue from logistics management business for the first 9-month of 2018 was Baht 101.4 million, an increase by 31.7% compared to that of the same period of last year. This was due to an increase in service volume and management of logistics and warehouse service.

However, the Company had adjusted its management structure in order to reduce unnecessary costs and was able to generate gross profit of Baht 28.5 million, a slight increase from that of the same period of last year.

4) Chemical and dangerous goods logistics business

Chemical and dangerous goods logistics business is the second highest revenue-generating business of 18.7% of the total revenues. The business generated revenue for the first 9 month of 2018 of Baht 427.9 million, an increase by 5.9% compared to that of the same period of last year. This was due to increase in service volume of chemical and dangerous goods logistics business.

Gross profit for the first 9 month of 2018 was Baht 100.4 million, a slight decrease from the last year. This was partially due to the nature of business of DG Packaging (Thailand) Co., Ltd. which had high gross profit margin.

Financial Position Analysis

Unit : Million Baht

Statement of Financial Position	30 June 2018	30 September 2018	Increase (Decrease)	%
Total assets	1,660.5	1,841.6	181.1	10.9%
Total liabilities	546.3	684.0	137.7	25.2%
Shareholders' equity	1,114.2	1,157.6	43.4	3.9%

Total assets

As of 30 September 2018, the Company's total assets was Baht 1,841.6 million, a slight increase from that as of 30 June 2018 of Baht 1,660.5 million. The increase in total assets was due to investment in DG Packaging Pte. Ltd. in Quarter 3/2018 in the amount of SGD 11 million. In addition, majority of the Company's assets consisted of account receivables and cash equivalent to Baht 478.4 million and Baht 633.6 million respectively.

Total liabilities

As of 30 September 2018, the Company's total liabilities was Baht 684.0 million, an increase from that as of 30 June 2018 of Baht 546.3 million. This was due to the remaining installments for the acquisition of DG Packaging Pte. Ltd. According to the terms and conditions of the acquisition, the Company remained liable to pay SGD 2 million per year for the acquisition in 2019 and 2020.

Shareholders' equity

As of 30 September 2018, the Company's shareholders' equity was Baht 1,157.6 million, an increase by Baht 43.4 million in line with the Company's operating performance for Quarter 3/2018.

Management's Viewpoints on Trend and Strategies for Quarter 4/2018

1) Air freight business

- Wholesale air freight forwarder

In 2018, the Company focuses on increasing the number of international e-commerce customers. As a result, the Company has generated new stream of revenue from such group of customers. It is expected that the Company will generate higher revenue from such group of customers in Quarter 4/2018 as the period is considered high-season for international e-commerce customers.

- General sales agent (GSA) for airlines

Natural disaster impacting major airports in Osaka, Tokyo and Hong Kong in Quarter 3/2018 had caused volume of transportation to fall behind the target. However, situation is presently back to normal. The Company is confident that for Quarter 4/2018, which is high season, there will be high volume of transportation. In addition, Thai AirAsia X has opened a new route to Nagoya, which is a main route and an industrial city of Japan. Hence, it is expected that transportation of products via such route shall result in an increase in the Company's service volume.

- Airport warehouse and ground handling services (Air Cargo Terminal)

Since the Company's expansion into airport warehouse business from the beginning of the year, revenue generated from this business had been growing for three consecutive quarters. It is expected revenue will continue to grow in Quarter 4/2018 as it is a high-season. In addition, the Company was able to manage its costs better as reflected in higher profit in Quarter 3/2018. The consequence of cost control will be more apparent in Quarter 4/2018 since cost per unit will decrease.

2) Sea freight and inland transport business

Since the Company become an agent of Rizhao Port (Hong Kong) Shipping from China from the end of last year, the Company continued to have higher volume of sea freight in routes serviced by Rizhao and the service provided was in line with the target prescribed by the shipping line. The main routes serviced by Rizhao are China and Vietnam which are Thailand's top trading partners. Therefore, the Company is confident that it will be able to expand its customer base to increase service volume. However, this will depend on policy and readiness of Rizhao shipping line in increasing freight capacity and number of containers in the future.

3) Logistics management business

- International freight forwarding service

The Company has expanded its sales team in order to focus on increasing the number of main customers and the result of such initiative was satisfactory. Strategies include provision of new solutions and provision of innovative and value-added services. The satisfactory result reflects that this has been a correct way in expanding the business. It is expected that the Company's main customers will become more diversified this year.

- Warehouse and distribution service

The Company continued to improve its cost management. It has been focusing on increasing efficiency and improvement of work system and information technology system.

4) Chemical and dangerous goods logistics business

The Company provides full services in respect of chemical and dangerous goods logistics business. The business plan will be jointly developed by the Company and customer during the last quarter of each year. The Company will use such business plan to expand warehouse and services to be in line and suitable with the business plan of the customer. The business plan also accommodates for new business opportunities in the future. In addition, the Company is in the process of studying possibility of expanding its warehouse to new locations in the next year. In respect of joint investment with DG Packaging Pte., Ltd. in Singapore, the Company focuses and monitors the investment performance to be in line with the targeted performance.

During Quarter 4/2018, the Company began to provide advisory service on logistics management for chemical and dangerous goods to a leading company which has branches across Regions of Asia. The Company will start to earn revenue from such business in Quarter 4/2018 and continues to provide such service until the next year.

5) Other factors with impact on the business

- Exchange rate

Although Thai Baht remains fluctuated in Quarter 3/2018, Thai Baht is weakening compared to that of the first half of the year 2018. In addition, since the Company has hedged against foreign exchange rate risk, impact from exchange rate is lower compared to the first half of the year.

- Freight trends

The volume of air freight and sea freight will remain high during Quarter 4/2018. Overall, freight rates will remain stable.

- Impact from China-United States trade war

The China-United States trade war starting from this July has resulted in tariffs being applied on a list of imported products of both countries. Although China is one of the major markets serviced by the Company, impact from such trade war to the Company is not apparent as products transported by the Company are for consumption in China. In the future, if China reduces volume of imported products from the United States due to higher tariff on products, such as agricultural products and seafood, the Company views that it is a business opportunity for China to import products from Thailand instead of the United States.

Yours sincerely,

Triple i Logistics Pubic Company Limited



(Mr. Tipp Dalal)

Chief Executive Officer