

PROEN Corp Public Company Limited

Management Discuss and Analysis Quarter 2 Ending 30 June 2021

Operating Result for the Quarter 2/2021

In Q2/2021, the Group of Companies had total revenue of 452.8 million Baht or -6.4% YoY. The decrease was mainly due to a decrease in revenue from Telecommunication and Basic Public Utility Construction, in which several projects had been completed for 100%, resulting in a decrease in revenue recognition for this business unit. Meanwhile, revenue from ICT business for selling Server Computer and Telecommunication Network Equipment was 223.7 million Baht or increased 85.7%. Revenue from Internet Data Center (IDC) service was 168.2 million Baht or increased 27.5% YoY. The Group of Companies had net profit of 20.2 million Baht or -11.8% YoY.

Operating Result	Quarter 2/2020 (3 Months)		Quarter 2/2021 (3 Months)		Increase (Decrease)	% Increase (Decrease)
	MB.	%	MB.	%		
Total revenue from sales and services	312.7	100.0%	248.3	100.0%	(64.4)	(20.6%)
Total cost of sales and services	259.4	83.0%	206.8	83.3%	(52.6)	(20.3%)
Net profit	53.3	17.0%	41.5	16.7%	(11.8)	(22.0%)
Other revenue	0.8	0.3%	1.3	0.5%	0.5	50.4%
Selling expenses	3.8	1.2%	4.1	1.7%	0.3	8.0%
Administrative expenses	21.3	6.8%	24.1	9.6%	2.8	13.2%
Profit (Loss) before interest and income tax	29.0	9.3%	14.6	5.9%	(14.4)	(49.6%)
Financial costs	4.7	1.5%	2.5	1.0%	(2.2)	(46.6%)
Profit (Loss) before income tax expense	24.3	7.8%	12.1	4.9%	(12.2)	(50.2%)
Corporate income tax	5.9	1.9%	0.9	0.4%	(5.0)	(84.9%)
Gross profit	18.4	5.9%	11.2	4.5%	(7.2)	(39.2%)



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Operating Result	Quarter 2/2020 (6 Months)		Quarter 2/2021 (6 Months)		Increase (Decrease)	% Increase (Decrease)
	MB.	%	MB.	%		
Total revenue from sales and services	483.0	100.0%	451.1	100.0%	(31.9)	(6.6%)
Total cost of sales and services	392.6	81.3%	380.6	84.4%	(12.0)	(3.1%)
Net profit	90.4	18.7%	70.5	15.6%	(19.9)	(22.0%)
Other income	0.9	0.2%	1.7	0.4%	0.8	78.9%
Selling expenses	7.1	1.5%	7.9	1.8%	0.8	11.6%
Administrative expenses	44.3	9.2%	36.3	8.0%	(8.0)	(18.2%)
Profit (Loss) before interest and income tax	39.9	8.2%	28.0	6.2%	(11.9)	(29.9%)
Financial costs	8.9	1.8%	5.5	1.2%	(3.4)	(38.2%)
Profit (Loss) before income tax expense	31.0	6.4%	22.5	5.0%	(8.5)	(27.5%)
Corporate income tax	8.1	1.7%	2.3	0.5%	(5.8)	(72.1%)
Gross profit	22.9	4.7%	20.2	4.5%	(2.7)	(11.8%)

Income, Cost, and Net Profit

In Q2/2021, the main income of the Group of Companies was mainly from ICT business. Income proportion of ICT business per revenue from sales and services was increase, due to the client group of E-Commerce, and Online Gaming business expanded their investment considerably during the COVID-19 pandemic situation, resulting in an increase of revenue from ICT business sale of 85.7%. Revenue from sales and services increased 27.5% YoY, caused an increase of income proportion from the total income. Revenue from ICT business was 86.5% of the total income in Q2/2021, which can be clarified as follows:

Type of Revenue	Quarter 2/2020 (3 Months)		Quarter 2/2021 (3 Months)		Increase (Decrease)	% Increase (Decrease)
	MB.	%	MB.	%		
Revenue from sale	85.7	27.3%	123.9	49.6%	38.2	44.6%
Revenue from service	68.7	21.9%	99.0	39.7%	30.3	44.1%
Revenue from construction contracts	158.3	50.5%	25.4	10.2%	(132.9)	(83.9%)
Total revenue from sales and services	312.7	99.7%	248.3	99.5%	(64.4)	(20.6%)
Other income	0.8	0.3%	1.3	0.5%	0.5	50.4%
Total revenue	313.5	100.0%	249.6	100.0%	(63.9)	(20.4%)



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Type of Revenue	Quarter 2/2020 (6 Months)		Quarter 2/2021 (6 Months)		Increase (Decrease)	% Increase (Decrease)
	MB.	%	MB.	%		
Revenue from sale	120.5	24.9%	223.7	49.4%	103.2	85.7%
Revenue from service	131.9	27.3%	168.2	37.1%	36.3	27.5%
Revenue from construction contracts	230.6	47.6%	59.2	13.1%	(171.4)	(74.3%)
Total revenue from sales and services	483.0	99.8%	451.1	99.6%	(31.9)	(6.6%)
Other income	0.9	0.2%	1.7	0.4%	0.8	78.9%
Total revenue	483.9	100.0%	452.8	100.0%	(31.1)	(6.4%)

1. Technology and Communication Business consist of:

1.1. Telecommunication network equipment sales business

Telecommunication network equipment sales business	Quarter 2/2020 (6 Months)		Quarter 2/2021 (6 Months)		Increase (Decrease)	% Increase (Decrease)
	MB.	%	MB.	%		
Revenue from sale of telecommunication network equipment	120.5	100.0%	223.7	100.0%	103.2	85.7%
Cost of telecommunication network equipment	111.7	92.7%	208.9	93.4%	97.2	87.1%
Net profit from sale of telecommunication network equipment	8.8	7.3%	14.8	6.6%	6.0	67.5%

Revenue from sale of Telecommunication Network Equipment in Q2/2021 continued to rise, due an increase of sale amounting to 25.0 million Baht in Q1/2021 or increased 24.0% QoQ. Mostly was from the sale of Server and Computer Equipment sold to the Garena group client (an Online Gaming Business and E-Commerce provider), together with revenue from 100% delivered network equipment used for Immigration Terminal system of a Government Agency - Tak Province Immigration Office. In Q2/2021, the Group of Companies reported increased revenue of 103.2 million Baht or 85.7% YoY. Net profit increased 6.0 million Baht or 67.5% YoY.



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1.2 Telecommunication Service Business

Telecommunication Service Business	Quarter 2/2020 (6 Months)		Quarter 2/2021 (6 Months)		Increase (Decrease)	% Increase (Decrease)
	MB.	%	MB.	%		
Revenue from telecommunication service business						
1. Revenue from Internet Data Center (IDC) service	63.5	48.1%	69.8	41.5%	6.3	10.0%
2. Revenue from Internet Service Provider (ISP) service	34.2	26.0%	35.8	21.3%	1.6	4.7%
3. Revenue from project service	17.2	13.0%	35.2	20.9%	18.0	104.9%
4. Revenue from providing other services	17.0	12.9%	27.4	16.3%	10.4	60.5%
Total revenue of telecommunication business	131.9	100.0%	168.2	100.0%	36.3	27.5%
Cost of telecommunication network service						
Variable cost: Internet and network service charges, and electric expense of IDC	51.2	38.8%	60.9	36.2%	9.7	19.0%
Fixed cost: rental cost, depreciation and amortization cost, cost related to employee, contractor labor cost, and other costs	36.7	27.8%	56.5	33.6%	19.8	54.0%
Total cost of telecommunication network service	87.9	66.6%	117.4	69.8%	29.5	33.6%
Net profit of telecommunication network service	44.0	33.4%	50.8	30.2%	6.8	15.3%

In Q2/2021, the Group of Companies had revenue from providing all kinds of Telecommunication Services that continue to grow from Q1/2021, increased by 29.7 million Baht or 42.9% QoQ. In Q2/2021, revenue from IDC service increased by 6.3 million Baht or 10.0%. There were revenues from 100% delivered project service of 3 projects, increased by 18.0 million Baht or 104.9%. Cost of Telecommunication Network Service was high, according to the increased revenue proportion, resulting in an increase of net profit from Telecommunication Network Service, increased by 6.8 million Baht or 15.3% YoY.

2. Construction Business

Construction Business	Quarter 2/2020 (6 Months)		Quarter 2/2021 (6 Months)		Increase (Decrease)	% Increase (Decrease)
	MB.	%	MB.	%		
Revenue from construction business	230.6	100.0%	59.2	100.0%	(171.4)	(74.3%)
Cost of projects under construction business	193.0	83.7%	54.3	91.6%	(138.7)	(71.9%)
Net profit from construction contract	37.6	16.3%	4.9	8.4%	(32.7)	(86.8%)



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In Q2/2021, the Group of Companies operated 9 projects of Construction Business, which mainly were the Transmission Line building, and Data Center Room building for a financial institution. Revenue decreased by 171.4 million Baht or -74.3%, due to some of transmission line construction has been completed in 2020. In 2021, the bidding for new government projects have been suspended due to the COVID-19 pandemic situation, as a result of a decrease in net profit of 32.7 million Baht or -86.8% YoY.

Other Revenue

In Q2/2021, the Group of Companies reported other revenue, including interest receivable earned from the deposit with financial institutions, interest receivable earned from a leasing agreement of Google Station Project, and profits from the sale of some assets. Other revenue increased by 0.8 million Baht or 78.9% YoY.

Selling Expenses

Selling Expenses	Quarter 2/2020 (6 Months)		Quarter 2/2021 (6 Months)		Increase MB.	% Increase (Decrease)
	MB.	%	MB.	%		
Payroll, labor cost, and expenses related to employee	6.4	89.7%	6.8	85.6%	0.4	6.5%
Brokerage fee	0.3	4.5%	0.1	1.5%	(0.2)	(62.3%)
Cost of advertising and PR	0.3	4.1%	0.5	6.1%	0.2	67.8%
Other expenses	0.1	1.7%	0.5	6.8%	0.4	320.9%
Total selling expenses	7.1	100.0%	7.9	100.0%	0.8	11.6%

In Q2/2021, selling expenses mainly were payroll, labor cost, and expenses related to sales and marketing officers. The expenses of sales and marketing officers were high, because of an increase of new employees to support the expansion of Telecommunication business. Selling expenses in Quarter 2/2021 increased by 0.8 million Baht or 11.6% YoY.



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Administrative Expenses

Administrative Expenses	Quarter 2/2020 (6 Months)		Quarter 2/2021 (6 Months)		Increase MB.	% Increase %
	MB.	%	MB.	%		
Expenses related to employees	17.4	39.3%	19.7	54.3%	2.3	13.2%
Allowance for doubtful accounts	9.1	20.6%	(2.4)	(6.5%)	(11.5)	(125.8%)
Advisor and auditor fees	5.4	12.2%	5.0	13.7%	(0.4)	(8.5%)
Depreciation and amortization	4.5	10.1%	3.6	10.0%	(0.9)	(19.0%)
Bank fee	3.9	8.8%	2.9	7.9%	(1.0)	(27.3%)
Rental, public utility, and maintenance cost	1.6	3.6%	1.4	3.9%	(0.2)	(11.4%)
Insurance premium	0.9	2.0%	1.1	2.9%	0.2	20.9%
Other expenses	1.5	3.4%	5.0	13.8%	3.5	237.0%
Total administrative expenses	44.3	100.0%	36.3	100.0%	(8.0)	(18.2%)

In Q2/2021, administrative expenses decreased by 8.0 million Baht or -18.2% YoY. The decrease mainly due to 1) reversing entries of Allowance for Doubtful Account collected from account receivable at the ending of FY2020, and 2) Bank fee, for the current period, there was no need to apply for supplemental loans from financial institutions to be used for project management, because there was a fund from IPO to use instead of applying credit from financial institutions.

Financial Cost

In Q2/2021, financial cost decreased by 3.4 million Baht or -38.2% YoY, mainly due to a loan repayment to financial institutions, which was the loan used for project management, and IPO funding to repay the overdraft and short-term loan applied from financial institutions.

Gross Profit and Gross Profit Ratio

In Q2/2021, gross profit decreased by 2.7 million Baht or -11.8% YoY, mainly was from a decrease in revenue recognition of Construction Business, which various projects completed for 100%. However, the Garena group client had a high demand for Telecommunication Network Equipment, so the Group of Companies gained profit from this business unit. Telecommunication Network Service Business was also in high demand, especially with IDC and ISP service business. In addition, there were reversing entries of Allowance for Doubtful Accounts that could be able to collect from account receivable at the end of FY2020.



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Statement of Financial Position

Consolidated Financial Statements (Unit: million Baht)	31-Dec-20	30-Jun-21	Increase (Decrease)	% Increase (Decrease)	% Proportion per total assets
Assets					
Current asset	417.5	574.5	157.0	37.6%	69.3%
Non-current asset	249.4	254.0	4.6	1.9%	30.7%
Total assets	666.9	828.5	161.6	24.2%	100.0%
Liabilities and shareholders' equity					
Current liabilities	411.6	329.9	(81.7)	(19.9%)	39.8%
Non-current liabilities	104.8	87.8	(17.0)	(16.3%)	10.6%
Shareholders' equity	150.5	410.8	260.3	173.0%	49.6%
Total liabilities and shareholders' equity	666.9	828.5	161.6	24.2%	100.0%

Total Assets

Consolidated Financial Statements (Unit: million Baht)	31-Dec-20	30-Jun-21	Increase (Decrease)	% Increase (Decrease)	% Proportion per total assets
Cash and cash equivalents	85.4	196.1	110.7	129.6%	23.7%
Pledged bank deposit	70.8	73.3	2.5	3.5%	8.9%
Account receivable and other receivable	297.8	340.1	42.3	14.2%	41.0%
Inventory	20.4	22.6	2.2	10.8%	2.7%
Land, building with equipment, and right-of-use assets	148.0	151.3	3.3	2.2%	18.3%
Other assets	44.5	45.1	0.6	1.4%	5.4%
Total assets	666.9	828.5	161.6	24.2%	100.0%

As of 30 June 2021, total assets was increase, mainly were from an increase of cash gained from ordinary shares offering, and an increase of account receivable of the 100% delivered projects at the nearly to period ending when waiting for payments from clients. As of 30 June 2021, the Group of Companies reported total assets of 828.5 million Baht, increased by 161.6 million Baht or 24.2% YoY.



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Total Liabilities

Consolidated Financial Statements (Unit: million Baht)	31-Dec-20	30-Jun-21	Increase (Decrease)	% Increase (Decrease)	% Proportion per total assets
Trade and other current payables	269.0	250.1	(18.9)	(7.0%)	30.2%
Loan from financial institutions	168.1	102.1	(66.0)	(39.3%)	12.3%
Liabilities under leasing agreements	47.7	35.4	(12.3)	(25.7%)	4.3%
Other liabilities	31.6	30.1	(1.5)	(4.9%)	3.6%
Total liabilities	516.4	417.7	(98.7)	(19.1%)	50.4%

As of 30 June 2021, total liabilities was decrease, mainly was from a decrease in trade and other current payables and a decrease in loan from financial institutions, because of loan repayments using cash flow gained from receivables of the project and cash gained from ordinary shares offering. As of 30 June 2021, total liabilities were 417.7 million Baht, decreased by 98.7 million Baht or -19.1% YoY.

Shareholders' Equity

Consolidated Financial Statements (Unit: million Baht)	31-Dec-20	30-Jun-21	Increase (Decrease)	% Increase (Decrease)	% Proportion per total assets
Paid-up capital	115.0	158.0	43.0	37.4%	19.1%
Ordinary share premium	0.0	228.7	228.7	100.0%	27.6%
Surplus (deficits) from business combinations	1.2	1.2	0.0	-	0.1%
Legal reserve	7.0	8.0	1.0	15.1%	1.0%
Cumulative profit	27.3	14.9	(12.4)	(45.5%)	1.8%
Total shareholders' equity	150.5	410.8	260.3	173.0%	49.6%

As of 30 June 2021, total Shareholders' Equity was highly increase, mainly was from an increase of ordinary share premium from the offering. As of 30 June 2021, the Group of Companies reported an increase in equity for 410.8 million Baht, increased by 260.3 million Baht or 173.0% YoY.



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Key Financial Ratio

Financial Ratio	Unit	As of 31 Dec 2020	As of 30 Jun 2021	Increase (Decrease)
Liquidity ratio	time	1.0	1.7	0.8
Quick ratio	time	0.9	1.7	0.8
Return on Equity (ROA)	%	19.4	8.0	(11.4)
Return on Assets (ROE)	%	3.9	3.0	(0.9)
Interest Bearing Debt	time	1.4	0.3	(1.1)
D/E ratio	time	3.4	1.0	(2.4)

● Liquidity Ratio and Quick Ratio

As of 30 June 2021, Liquidity Ratio and Quick Ratio were highly increase, resulting in an increase of liquidity to the Group of Companies, because of an increase of cash from ordinary shares offering, and a decrease in overdraft and short-term loans from financial institutions.

● Operating Efficiency Ratio

As of 30 June 2021, ROA and ROE decreased compared with the end of period 31 Dec. 2020, because of an increase of the current assets with high liquidity, and an increase of Equity from ordinary shares offering (IPO).

● Financial Policy Ratio

As of 30 June 2021, the Group of Companies reported Interest-Bearing D/E Ratio of 0.3 times, decreased by 1.1 times. D/E Ratio was 1.0 times, decreased by 2.4 times compared with the period ending 31 December 2020, because of a decrease in overdraft and short-term loans from financial institutions, and an increase of gross profit from operating results.



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