



ALT Telecom Public Company Limited

Management Discussion and Analysis For the year end as at 31 Dec 2017



Vision

To be leader in providing network infrastructure and being business partner with the telecom operators in this region

February 26, 2018

The President

The Stock Exchange of Thailand

Dear Sir/Madam,

Re: Management Discussion and Analysis for the year end as at 31 Dec 2017

ALT Telecom Public Company Limited (“ALT”)

The Company’s performance for the year 2017 as compared with 2016 from the consolidated financial statement of the Company are summarized as follows:

- Income growth has slowed down. Total revenues were Baht 1,258.1 million, decreased by Baht 706.6 million or 36.0%
- Gross margin was Baht 286.8 million, decreased by Baht 254.8 million or 47.0%
- Net profit was Baht 56.9 million decreased by Baht 222.7 million or 79.7% from the previous year
- Net cash flow from operating activities in 2017 was Baht 272.9 million
- Net Debt to equity ratio was 0.91 at the end of 31 Dec. 2017
- Backlog as at the end of 31 Dec 2017 was Baht 501 million.

Executive Summary

M.THB	2016	2017	Increase/ Decrease
Revenues	1,964.7	1,258.1	-36.0%
Gross Profit	541.5	286.8	-47.0%
Gross Margin (%)	27.6%	22.8%	
EBITDA	391.9	135.4	-65.5%
EBITDA Margin (%)	19.9%	10.8%	
Net Profit/(Loss)	279.5	56.9	-79.7%
Net Profit Margin (%)	14.2%	4.5%	

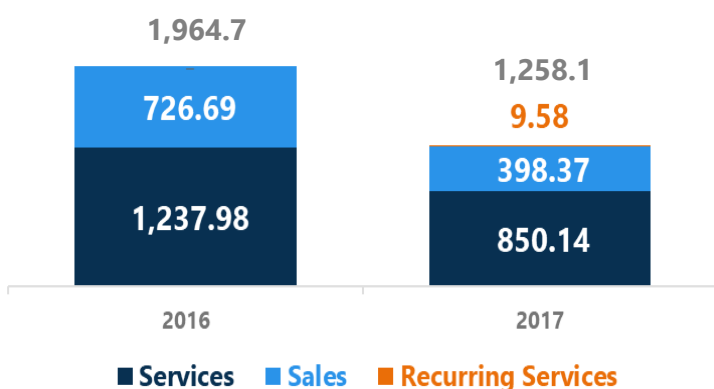
The declining of performance in 2017 was only a short-term result. The Company has invested in many projects, which will generate the recurring income for the Company in the long run. In 2017 the Company has begun to recognized some of recurring project, the significant amount of recurring income expected to be earned in 2018, as we planned to earned 50% of net profit from recurring income projects in 2020.

The Company’s performance for 2017 presented diminish revenue and profit, the factor is the revenue from the sales and services has decreased significantly. As customers have slowed down investment in new base stations. Also, the competition in supply chain has intensified, they have changed their business ideas, whether it is cost reduction or the pursuit of new business opportunities. The telecommunications industry is changing rapidly and affected to the whole sector, each company has taken measures to adapt its business direction to align with the changes. Consequently, operating performance in the year 2017 has declined explicitly.

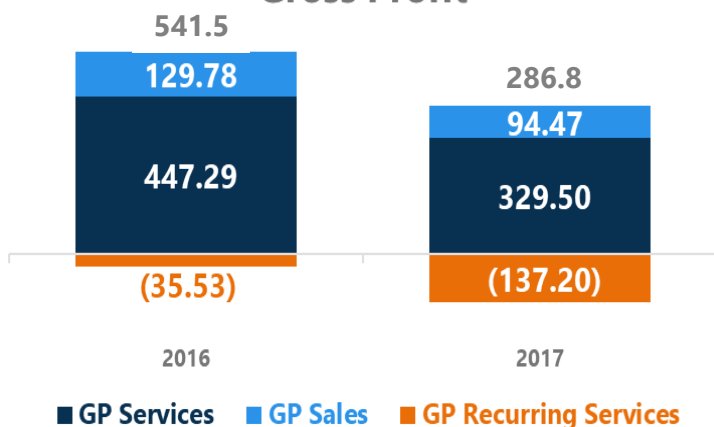
Consolidated Performance Summary

STATEMENT OF INCOME	2016		2017		Increase/Decrease	
	M.TH.B	%	M.TH.B	%	(+/-)	%
Revenues from sales and services	1,964.7	100.0%	1,258.1	100.0%	(706.6)	-36.0%
Cost of goods sold and services	(1,423.1)	-72.4%	(971.3)	-77.2%	(451.8)	-31.7%
Gross profit	541.5	27.6%	286.8	22.8%	(254.8)	-47.0%
Other income	26.2	1.3%	39.8	3.2%	13.6	51.7%
Selling and admin expenses	(255.7)	-13.0%	(226.8)	-18.0%	(29.0)	-11.3%
Gain/(Loss) from exchange rate	3.2	0.2%	2.2	0.2%	(1.1)	-32.7%
Share of Gain/(Loss) of investments in associate and joint venture	41.7	2.1%	(1.5)	-0.1%	(43.2)	-103.6%
Finance costs	(36.4)	-1.9%	(24.3)	-1.9%	(12.1)	-33.2%
Profit before income tax expense	320.5	16.3%	76.1	6.1%	(244.4)	-76.2%
Income tax (expense) revenue	(41.0)	-2.1%	(19.3)	-1.5%	(21.7)	-53.0%
Profit for the period	279.5	14.2%	56.9	4.5%	(222.7)	-79.7%

Revenues



Gross Profit



I) Services Business – in 2017

- Revenues from construction and installation services, such as construction of base stations, equipment and optical fiber cable installation, totally of Baht 850.1 million, decreased by Baht 387.8 or 31.3% from 2016 at Baht 1,238 million.
- Gross margin was Baht 329.5 million, decreased Baht 117.8 million or 26.3% from 2016 at Baht 447.29 million.
- Gross profit margin was at 38.8%, increased from 36.1% in 2016.

II) Sales Business – 3Q/2017

- Total sales of telecommunication products such as optical fiber cable and Wi-Fi devices, etc., totally 398.4 million, decreased by Baht 328.3 million or 45.2% from last year at Baht 726.7 million.
- Gross profit was Baht 94.5 million, compared to last year decreased by Baht 35.3 million or 27.2% at Baht 129.8 million.
- Gross Profit Margin was at 23.7% increased from 17.9% in 2016.

Revenues contribution

In 2017, the revenue contribution of Services Businesses, Sales Business and Recurring Services Business was about 67.6%, 31.7% and 0.8% respectively, which changed from 2016 at 63.0%, 37.0% and 0.0% respectively.

III) Recurring Income – 2017

- The Company has started to recognize revenue from the optical fiber cable network on telegram poles along with the railway (SRT Project) at the end of 3Q/2017, which was the beginning of revenue stream, approximately Baht 9.6 million in 2017. The significant amount of the project revenue expected to happen in 1H/2018. Currently, it is in the process of negotiation with target customers. The progress has been in order.
- The cost of optical fiber network services was Baht 146.8 million, comprised of depreciation of Baht 39.3 million and maintenance cost Baht 25.8 million. The remaining was cash cost amounting to Baht 81.7 million, which was the cost of right of way and utilities. In addition, the such depreciation cost of Baht 39.3 million has included depreciation of Hemaraj Project amounting to Baht 22.7 million. The revenue of this project was stop to recognize, because customer has defaulted the payment. The Company filed a lawsuit against the Central Administrative Court and the Central Administrative Court announced a judgment on 30 September 2016, that the parties should pay the indemnity to the Company. But the party applied to appeal. Currently, the case is awaiting a decision of the Supreme Administrative Court.

Selling & Administrative Expense

- In 2017, selling and administrative expenses were Baht 226.8 million, decreased by Baht 28.9 million or 11.3% from 2016 at Baht 255.7 million.

Finance Cost

- Baht 24.3 million, decreased from 2016 at Baht 36.4 million. Because the decreasing of interest bearing debts.

Net Profit

- Net result of operation earned Baht 56.9 million in 2017, decreased by Baht 222.7 million or 79.7% from 2016 at Baht 279.5 million. Because the declining of revenue and the starting of depreciation of SRT project.

2018 MANAGEMENT OUTLOOK & STRATEGY

In 2017, the Company showed declining revenue and profit, which responded to the climate of telecommunication industry. However, the volatility of the telecommunications industry is thing that the Company has anticipated. The Company has established a long-term plan to reduce the fluctuation by increasing recurring income from services or rent. Currently, the Company developed telecommunication infrastructures leasing service covering strategic location throughout the country such as; optical network in Hemaraj industrial estate, optical network attached on telegraph network along the railway path, optical network in Navanakorn industrial estate, the project of relocation the optical fiber cable network from aerial on the electricity pole to underground, optical network on main transportation route in central business districts, optical network on main streets around Bangkok and telecom towers and service located in gas stations. Furthermore, the company still keep exploring the new type of income sources to fill up and compensate the shrinking of traditional income source, including seeking for the new business partners to enhance the business opportunities or strengthen the competition competency of the Company.

Though in short-term the performance might slow down as the plan to generate recurring income has been delayed resulting in the revenue cannot compensate for a decline of revenue from sales and services since the business has just been started up and faced a delay. However, the Company believes in its direction as specified in the Company's strategic plan, and estimates that the decrease in company performance will be short-term.

The Company also has the projects in hands as follows:

- o The Company still has a backlog of service and rental of Baht 501 million at the end of 31 Dec 2017 and will be recognized in 2018.
- o SRT Project started to be recognized revenue in late of 3Q/2017 and expected to increase the contribution significantly in 1H of 2018
- o The project of relocation the optical fiber cable network from aerial on the electricity pole to underground. On Phaholyothin – Pradipat Road, Phayathai Road and Sukhumvit Road, some parts have been completed and ready to service in the beginning of 2018. As well as, the Company will have developed in other roads as planned.
- o Navanakorn Smart City Project - relocation the optical fiber cable network from aerial on the electricity pole to be on ground, is on construction phase. The project is expected to start to contribute revenue in 3Q/2018.
- o Other projects are under negotiation with landlords to gain the right to use, together with conducting a survey of customer demand, prior to make decision of investment accordingly.

For your information.

Yours faithfully,

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