

IDR 14/2018

November 13, 2018

Re: Management Discussion and Analysis (MD&A) for the Third Quarter of 2018

To: The President
The Stock Exchange of Thailand

CP All Public Company Limited (the Company or CPALL) would like to clarify operating results for the third quarter of 2018 which the Company and its subsidiaries reported net profit of Baht 5,182 million. The main reasons are as follows:

Total Revenue

In 3Q18, the Company and its subsidiaries' total revenue were Baht 130,552 million. An increase of 6.0 percent from the same period last year was mainly driven by higher sales revenue and service income of convenience store business and cash & carry business under the name "Siam Makro". Resilient revenue growth was a result of the Company's strategy to remain vigorous in store expansion to correspond to the change in consumer lifestyle, to serve convenience to all communities and to offer products and services that accommodate to customer demand.

Gross Profit

The Company and its subsidiaries' gross profit in the third quarter of 2018 was Baht 28,008 million, increased by 5.7 percent from the same period last year. Gross margin to sales and service income in the consolidated financial statement was lower from 22.4 percent in 3Q17 to 22.3 percent in 3Q18, mainly from lower gross margin YoY of CVS business. In 3Q18, products that posted high sales growth such as cigarette, alcohol and online game cards had lower gross margin than other products; resulting in a decline in gross margin YoY. Meanwhile, Siam Makro was able to retain its decent gross margin in 3Q18.

Distribution Costs and Administrative Expenses

In 3Q18, the Company and its subsidiaries' distribution costs and administrative expenses breakdown is as follows:

Costs and Expenses	3Q18
Personnel	27.8%
Store management fees	18.9%
Rental and depreciation and amortisation	17.8%
Advertising and sale promotion	12.6%
Utilities and others	22.9%
Total	100.0%

The Company and its subsidiaries' distribution costs and administrative expenses rose to Baht 24,998 million, increased by 5.8 percent from 3Q17. In 3Q18, distribution costs were Baht 21,170 million, increased by 5.8 percent YoY mainly related to domestic store expansion of both convenience store and cash & carry businesses and international expansion of Siam Makro. Nevertheless, administrative expenses rose to Baht 3,827 million, or 5.7 percent YoY as the Company and its subsidiaries' controlled and managed expenses well.

Profit Before Interest and Tax Expenses, and Net Profit

In 3Q18, profit before interest and tax expenses was Baht 8,080 million, up 3.0 percent YoY. Net profit was Baht 5,182 million, increased by 4.3 percent from the same period last year. Earnings per share reported in the consolidated financial statements in 3Q18 was Baht 0.55. The improvement in net profit was mainly driven by decent business operations, lower interest expenses due to a repayment of matured debentures, as well as no record of interest expenses on perpetual debentures in statement of income.

Moreover, the Company has recognised a decrease in ownership interest in Siam Makro, from 97.9 percent to 93.1 percent, following the sale of 4.8 percent of its interest on 28 March 2018.

Operating Results for the First Nine Months of 2018

In 9M18, the Company and its subsidiaries' total revenues amounted to Baht 388,294 million, increasing 7.5 percent from the same period of last year as mainly driven by 7.6 percent growth in sales revenue and services income. Net profit was Baht 15,378 million, up by 6.9 percent YoY. Earnings per share reported in the consolidated financial statements were Baht 1.63 in 9M18.

Business Segment Performance

In 9M18, total revenue before elimination contributed from major businesses were, (1) convenience store business and other businesses accounted for 66 percent and (2) Siam Makro cash & carry business accounted for 34 percent. Revenue contribution from (1) CVS business and other businesses increased YoY due to higher sales revenue and service income growth than that of (2) Siam Makro during the period.

Profit before tax before elimination contributed from major businesses in 9M18 were, (1) convenience store business and other businesses accounted for 81 percent and (2) Siam Makro cash & carry business accounted for 19 percent. Profit before tax contribution from (1) CVS business and other businesses rose YoY on the back of higher operating profit growth than (2) Siam Makro as well as gain on sale of investment in Siam Makro booked in 1Q18.

Operating Results of the Convenience Store Business

In order to move toward our long-term goal of having 13,000 stores by 2021, new stores expansion has progressed on track during the quarter. In 3Q18, the Company has successfully opened 142 new stores in all types including corporate, store business partner (SBP) and sub-area. At the end of 3Q18, CPALL operated 10,902 stores nationwide, which can be broken down into:

(1) 4,894 corporate stores (45 percent of total stores), or a net new store of 44 stores,

(2) 6,008 SBP and sub-area stores (55 percent of total stores), or a net new store of 98 stores

Majority of our stores were stand-alone, making 86 percent of total stores, while the others were in PTT gas stations.

As mainly driven by dynamic store expansion and successful product strategy, in 3Q18 the convenience store business reported revenue from sales and services of Baht 76,851 million, increased by Baht 6,006 million or 8.5 percent YoY. In 3Q18, convenience store business has retained its positive SSSG at 1.8 percent and posted average sales of Baht 79,772 per store on a daily basis in this quarter. In 3Q18, average spending per ticket was approximately at Baht 69 and there were 1,156 customer visits per store per day.

In 3Q18, sales of both food and non-food categories (excluding phone cards) grew at a decent level YoY. In 3Q18, sales of non-food products (excluding phone cards) outpaced sales of food products due to price increase of cigarette. As a result, food products sales mix accounted for 70.1 percent of total sales, while non-food products (excluding phone cards) accounted for 29.9 percent in 3Q18.

In 3Q18 gross profit amounted to Baht 21,204 million, increased by Baht 1,417 million or 7.2 percent YoY. Gross margin declined to 27.6 percent in 3Q18 from 27.9 percent in 3Q17, mainly because products that posted high sales growth in 3Q18 such as cigarette, alcohol and online game cards had lower gross margin than other products. Meanwhile, service income from mobile phone's prepaid top-up cards also continued on a declining trend, apart from that revenue from rendering services were at similar level to last year.

Meantime, other income rose to Baht 5,016 million in 3Q18, up Baht 92 million or 1.9 percent YoY largely from higher sales promotion income as well as income on CVS royalties and other fees relating to licenses income.

In 3Q18, distribution costs and administrative expenses were Baht 20,710 million, increased by Baht 1,008 million or 5.1 percent YoY, mainly owing to higher distribution costs i.e. rental, personnel, and utilities which in related to new store expansions. In the meantime, other costs and expenses were efficiently managed.

In 3Q18, profit before finance costs and income tax expense of the convenience store business was Baht 7,657 million, increased by 8.3 percent from 3Q17, while net profit was Baht 5,420 million, increased by 13.2 percent YoY. The improvement in net profit was mainly driven from decent business operation, lower interest expenses due to a repayment of matured debentures, as well as no record of interest expenses on perpetual debentures in statement of income.

For 9M18, convenience store business posted total revenues of Baht 249,202 million, increasing 11.0 percent from the same period of last year as mainly driven by 10.7 percent growth in sales revenue and services income. Meanwhile, net profit was Baht 16,874 million, increased by 25.9 percent from the same period of last year.

As at September 30, 2018, the Company and its subsidiaries' net debt to adjusted equity according to definition of bond covenants was at 1.19 times, decreased from 1.62 times in the same period of last year. Lower net debt to equity was mainly driven by larger shareholders' equity base from an increase in profit from business operation, repayment of matured ordinary debentures, and issuance of subordinated perpetual debentures in 2016 and 2017. The Company is obligated to comply with bond covenants with net debt to equity ratio calculated based on the consolidated financial statements for the period ended 31 December of each year, which covenants is not exceeding 2.0 times in 2018 onwards.

Management Outlook for Convenience Store Business in 2018

Store expansion	Following our plan to reach 13,000 stores by 2021, the Company will remain active in our new store rollouts following the growth of communities, various infrastructures, tourist destinations and other high potential areas in order to serve convenience to all communities. Thus, the Company plans to open approximately 700 new stores in 2018.
Sales and services revenue growth	The Company expects to continue delivering sales and services revenue growth as driven from contribution from new store and positive SSSG, which we forecast to grow in line with the projected economic growth in Thailand (GDP growth). However, this is subjected to other factors including inflation rate and private consumption growth.
Gross profit margin	Gross profit margin advancement is expected to continue on the back of our product strategy in order to cater to consumer demand. We also continue to drive higher sales participation of the higher-margin products in both food and non-food categories.
CAPEX	CAPEX is projected to be approximately Baht 9,500-10,000 million with details as follows (unit: million Baht) <ul style="list-style-type: none">• Stores expansion 3,600 - 3,800• Stores renovation 2,000 - 2,100• Investment in new project, subsidiaries and DC 3,100 - 3,200• Fixed assets and IT system 800 - 900

Please be informed accordingly.

Sincerely yours,

Mr. Kriengchai Boonpoapichart
Chief Financial Officer
Authorized to sign on behalf of the Company