



BJCHI

BJC HEAVY INDUSTRIES PUBLIC COMPANY LIMITED

Management Discussion and Analysis



Performance Overview

• Revenue

Contracted Revenue

In 2013, the Company recorded contracted revenues of Baht 3,909.61 million, up by 8.19% from Baht 3,613.55 million in 2012. The revenue growth was due mainly to realization of continuous revenues from two key sizable projects in Australia including those from (1) an EPC contractor Laing O'Rourke Australia Construction Pty Limited ("LOR") and (2) a project owner Australia Pacific LNG Pty Limited ("APLNG").

The Company started engaging with the LOR's project in May 2011 and has since been awarded several projects from LOR, with a combine project value of Baht 1,080.59 million. Revenues from these projects were recognized between 2011 and Q2/2013. Due to the success of previous projects and satisfaction in the quality of works, the Company has in Q3/2013 been awarded a new steel structure project for a mine in Australia worth Baht 674.81 million, of which Baht 409.89 million, or 60.74% of total project value, was recognized as revenues in 2013. This project is part of phase II investment that links with phase I that the Company previously engaged with.

The Company has started APLNG's Modularization work for gas exploration and drilling in Australia since June 2011, with the original project value of Baht 5,391.02 million. Due to satisfaction in the Company's quality of works and punctual delivery, the Company has been awarded addition works from APLNG such as the APLNG/Talinga and APLNG/Spring Gully projects, thus lifting a combine project value from APLNG to Baht 7,056.49 million and substantially bolstered the Company's contracted revenues from late 2011 until now.

The Company's revenue structure varies each year with results of biddings from EPC contractors/project owners and type of made to order projects and services. In 2012 – 2013, the Company did not provide any Site erection services, thus all works were completed at the Company's facilities and finished parts were delivered to customers at the port as agreed with customers. The Company's revenue structure can be divided into three main categories including 1) Steel fabrication 2) fabrication and Modularization and 3) Precast concrete.

Revenue Structure (Unit : Baht Million)	2012 (Restated)		2013	
	Amount	%	Amount	%
1. Steel fabrication	985.82	26.99	591.11	15.05
- Steel Structure	722.41	19.78	590.81	15.04
- Piping Fabrication	210.45	5.76	-	-
- Heater & Reformer	52.6	1.44	-	-
- Storage Tank	0.36	0.01	0.30	0.01
2. Fabrication and Modularization	2,564.26	70.20	3,318.50	84.46
3. Precast concrete	63.47	1.74	-	-
Total contracted revenue	3,613.55	98.93	3,909.61	99.51
Other income¹	39.03	1.07	19.28	0.49
Total revenues	3,652.58	100.00	3,928.89	100.00

Remark: ¹ other income consists of foreign exchange gain, profit/loss from sale of assets, revenue from sale of steel scrap, and revenue from other services. and revenue from other services. (Please see further explanation on the topic of Other Income.)

In 2013, the Company's revenues from Modularization works were at Baht 3,318.50 million, up by 29.41% from 2012, representing 84.46% of total revenues. The higher proportion of revenues from Modularization works in 2013 was due to an increase in revenue recognition from APLNG projects, both from addition works and new projects.

Meanwhile, revenues from Steel fabrication dropped from Baht 985.82 million in 2012 to Baht 591.11 million this year. Proportion of revenues from Steel fabrication fell to 15.05% of total revenues this year from 26.99% because the Company has focused mainly on Modularization works, which offers relatively wider gross profit margin while most of Steel fabrication works were finished in Q1/2013. However, the Company has been awarded a new Steel fabrication project, which it started to recognize revenue from Q3/2013 onwards.

Regarding the Precast concrete work, the Company started providing this service in 2009. This type of service increases the Company's ability to offer a variety of services and also diversifies risks from being dependent on specific industries. As a result, the Company expanded its services to cover Precast concrete service in the port industry. In 2012, the Company booked Baht 63.47 million revenues from the Precast concrete while it did not provide any of this service in 2013.

According to the Company's accounting policy, contracted revenues are booked in percentage of work completion, calculated from the proportion of the actual construction cost to the total budgeted construction cost and also taking into account the estimation of completed works by the Company's engineers. Details of the contracted revenues recognition are as follows;

Revenue Structure (Unit : Baht Million)	2012 (Restated)	2013
Unrealized project value (at the beginning of period)	5,616.36	3,941.98
Additional contract value during the period	1,939.17	1,485.03
- New project value	779.11	1,157.34
- Addition work value	1,160.06	327.69
Realized project value during the period	3,613.55	3,909.61
Unrealized project value (at the end of period)	3,941.98	1,517.40

In 2013, the Company was awarded additional contract value of Baht 1,485.03 million, comprising new projects from APLNG, LOR and other EPC contractors worth Baht 1,157.34 million and additional work from existing projects of APLNG and LOR worth Baht 327.69 million. The Company realized Baht 3,909.61 million worth of revenues in 2013. As of December 31, 2013, the Company's backlog was at Baht 1,517.40 million.

Other Income

The Company's other income comprised of foreign exchange gain, other service revenues, interest income, gain from sale of assets, and revenues from sale of steel scrap. In 2013, the Company recorded other income of Baht 19.28 million, or 0.49% of the total revenue, down from Baht 39.03 million in 2012 due mainly to Baht 56.07 million foreign exchange loss in 2013. (Please see further explanation on the topic of Costs and Expenses.)

• Costs and Expenses

Cost of contracted works

The cost of contracted works in 2013 was Baht 2,334.46 million, down by 9.06% from Baht 2,567.11 million in 2012 because the Company was awarded more additional works, which had lower cost, as well as effective cost control. In addition, the proportion of realized revenues from Modularization work rose to 84.88% of contracted revenues in 2013 from 70.96% in 2012. The Company can quote higher price for this type of work since it is more complicated than other type of works.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses in 2013 rose 11.05% to Baht 318.50 million, or 8.15% of contracted revenues, from Baht 286.80 million a year earlier. Details as follow:

1) Selling expenses

Selling expenses in 2013 rose 7.25% to 36.86 million from Baht 34.37 million in 2012 due to higher contracted revenues from Modularization work of the APLNG project. Despite relatively higher transportation cost for the delivery of Modularization work, selling expenses accounted for only 0.94% of contracted revenues.

2) General and Administrative expenses

The Company's general and administrative expenses rose to Baht 281.64 million in 2013 from Baht 252.43 million in 2012, or 7.20% and 6.99% of contracted revenues in 2013 and 2012, respectively. The rise in general and administrative expenses was due to higher salary, bonus and other employee benefits following new hiring to accommodate business expansion.

Foreign Exchange Loss

The Company booked foreign exchange loss of Baht 56.07 million in 2013, comparing with a gain of Baht 9.54 million a year earlier. The loss in 2013 was mostly recorded during the first half of the year when Australian Dollar was depreciated against the Baht for about 9.72% (comparing between exchange rates at the end of 2012 and the end of June, referring to the Bank of Thailand's data on average buying rate quoted by commercial banks). However, after the Company started implementing foreign exchange risk management policy from mid-2013, the Company could mitigate and limit such loss. The foreign exchange loss of Baht 56.07 million in 2013 comprised of Baht 35.86 million realized loss and Baht 20.21 million unrealized loss.

• Profit

Profitability (Unit : Baht Million)	2012 (Restated)		2013	
	Amount	%	Amount	%
Gross profit	1,046.44	28.96	1,575.15	40.29
Operating profit	759.05	21.01	1,198.19	30.65
Net profit	792.79	21.70	1,206.30	30.70

Gross Profit Margin

The Company's gross profit margin surged to 40.29% in 2013 from 28.96% in 2012 because it realized revenues from most of the APLNG project, a Modularization work granted directly by the project owner that was considered to be more complicate than Steel fabrication work the Company usually had in the past. Therefore, the Company can charge at higher price, resulting in the increase in gross profit margin. Moreover, the Company was also granted additional works from the APLNG project, where its cost structure was mainly consisting of labor cost and insignificant marginal raw material cost, resulting in even higher gross profit margin than original contract work. Thus, Company booked a gross profit of Baht 1,575.15 million in 2013, up by 50.52% from Baht 1,046.44 million in 2012.

Net Profit Margin

Net profit margin soared 50.52% to 30.70% in 2013 from 21.70% in 2012 in tandem with wider gross profit margin. Meanwhile, selling, general, and administrative expenses rose by only 11.05%, a much lower pace than the gross profit margin growth, due to economy of scale. Therefore, net profit surged by 52.16% to Baht 1,206.30 million in 2013 from Baht 792.79 million in 2012.

Financial Position

• Assets

As of December 31, 2013, the Company's total assets stood at Baht 4,836.42 million, up from Baht 1,882.76 million in 2012. Details are shown below.

Cash and Cash Equivalents

At the end of 2013, the Company had cash and cash equivalents of Baht 2,336.48 million, up significantly from Baht 26.25 million at the end of 2012 on net proceeds of Baht 2,319.64 million from the sale of new common shares through the initial public offering (net from expenses relating to the IPO). In addition, the Company's net profit soared to Baht 1,206.30 million in 2013 from Baht 792.79 million in 2012, resulting in a significant increase in cash from operations. However, the Company paid a dividend of Baht 448.80 million for the 2012 performance while investment in property, plant and equipment rose by Baht 388.89 million.

Trade Receivables

As of end-2013, trade receivables were at Baht 326.41 million, down from Baht 566.94 million a year earlier. Receivables with less than three months accounted for 99.74% and 91.70% in 2013 and 2012, respectively. Trade receivables in 2013 returned to normal level due to absence of impact from the change in payment policy of certain customer as occurred in late 2012.

Unbilled Contract Work in Progress

At the end of 2013 and 2012, the Company had unbilled contract work in progress of Baht 667.12 million and Baht 96.31 million, representing 13.79% and 5.12% of the total assets, respectively. The significant increase of 592.67% unbilled contract work in progress in 2013 was due mainly to an increase in contracted work volume and effective project management that enable the Company to complete works on schedule or ahead of schedules in certain cases.

Property, Plant and Equipment

The net property, plant and equipment at the end of 2013 and 2012 was Baht 776.52 million and Baht 446.51 million, representing 16.06% and 23.72% of the total assets respectively. The increase was because the Company built new shop factories including a galvanizing shop and a steel grating shop. Moreover, the Company invested in machineries and other equipment to facilitate business expansion and reduce the production cost.

Source of Fund

• Liabilities

At the end of 2013 and 2012, the Company had a total liabilities of Baht 444.64 million and Baht 583.72 million, respectively. Current liabilities were at Baht 426.85 million and Baht 565.07 million, representing 96.00% and 96.80% of the total liabilities, respectively. Thanked to effective working capital management, the Company did not rely on any long term loan from financial institution.

Total liabilities dropped because of a 29.43% decrease in trade payables to Baht 374.43 million in 2013 from Baht 530.59 million in 2012, due to early procurement of raw material for 2013 works in late 2012. The Company also purchased more raw materials with cash in order to enjoy better trade discount benefits.

• Shareholders' Equity

At the end of 2013 and 2012, the Company had total shareholders' equity of Baht 4,391.78 million and Baht 1,299.04 million, respectively. Total shareholders' equity was up significantly by 238.08% due to the IPO of 80 million shares that lifted registered and paid up capital to Baht 320.00 million, with share premium of Baht 2,239.64 million. In addition, the increase in 2013 net profit of 2013 also boosted retained earnings to Baht 1,832.14 million at the end of 2013 from Baht 1,074.64 million at the end of 2012.

Statements of Cash Flows (Unit : Baht Million)	2012 (Restated)	2013
Net Cash Inflow (Outflow) from Operating Activities	113.03	818.02
Net Cash Inflow (Outflow) from Investing Activities	(162.64)	(387.25)
Net Cash Inflow (Outflow) from Financing Activities	(62.08)	1,879.88
Effect from Exchange Rate on Cash and Cash Equivalents	(9.14)	(0.42)
Increase (Decrease) in Cash and Cash Equivalents – Net	(120.83)	2,310.23

Cash Flows from Operating Activities

Cash inflows from operating activities in 2013 were at Baht 818.02 million, up significantly from Baht 113.03 million a year earlier due to Baht 1,284.08 million profit from operating activities before changes in operating assets and liabilities, a Baht 319.99 million increase in operating assets, a decrease of Baht 147.15 million in operating liabilities, cash received from interest income of Baht 4.77 million, and cash paid for corporate income tax of Baht 3.69 million.

Cash Flows from Investing Activities

Cash outflows from investing activities in 2013 were at Baht 387.25 million, up from Baht 162.64 million in 2012. Major cash outflows during the year were from investment in buildings and equipments as well as advance payment for the procurement of fixed assets, amounting to Baht 388.89 million, to accommodate greater volume of contracted works and reduce production cost.

Cash Flows from Financing Activities

In 2013, cash flows provided by financing activities were at Baht 1,879.88 million, mainly from the Baht 2,335.24 million proceeds from offering of new common shares. The main cash outflow activity was the payment of Baht 448.80 million dividends for the 2012 performance.

Financial Ratios

• Efficiency Ratio

Ratios	Unit	2012 (Restated)	2013
Efficiency Ratio			
Return on Total Assets	%	55.31	35.91
Return on Fixed Assets	%	184.68	152.96
Total Assets Turnover	times	2.55	1.17

The Company's return on total assets and return on fixed assets in 2013 were at 35.91% and 152.96%, down from last year of 55.31% and 184.68%, respectively. The declines were due mainly to the significant increase of 156.88% in total assets to Baht 4,836.42 in 2013 million from Baht 1,882.76 million in 2012. Among key assets increased were cash and cash equivalents as well as fixed assets such as buildings and equipments. The Company's net profit also rose significantly by 52.16% from Baht 792.79 million in 2012 to Baht 1,206.30 million in 2013.

• Liquidity Ratio

Ratios	Unit	2012 (Restated)	2013
Liquidity Ratio			
Current Ratio	times	2.31	8.84
Quick Ratio	times	1.22	7.80
Cash Flows Liquidity Ratio	times	0.23	1.65

The Company's current ratio and quick ratio rose significantly in 2013 to 8.84 times and 7.80 times from 2.31 times and 1.22 times in 2012, respectively. The increases in both ratios were due mainly to the 189.06% increase in current assets from Baht 1,304.71 million in 2012 to Baht 3,771.38 million in 2013 as a result of a significant rise in cash and cash equivalents as well as unbilled work in progress in 2013.

The Company has enjoyed considerably high liquidity, thanked to internal cash flows from operations and consistent cash inflows from customers. In certain projects, customers made advanced payments of approximately 5-10% of total contract value for procurement of raw materials. Therefore, the Company had no necessity to borrow long-term fund from financial institutions and it had sufficient cash flows to pay dividend to shareholders on a regular basis.

• Financial Ratio

Ratios	Unit	2012 (Restated)	2013
Financial Ratio			
Debt to Equity Ratio	times	0.45	0.10
Interest Coverage Ratio	times	208.20	1,010.76
Debt Service Ratio	times	0.47	0.97
Dividend Payout Ratio*	%	56.61	63.67

Remark : * The calculation of Dividend payout ratio is based on performance period of each year.
On February 24, 2014, the Board of Directors' Meeting no. 1/2014 has resolved to propose to the 2014 Annual General Meeting of Shareholders to approve a dividend payment of Baht 2.40 per share for the 2013 performance.

Based on the financial ratios, the Company had low debt to equity ratio at less than 1 time. Debt to equity ratio for 2012 and 2013 were low at 0.45 and 0.10 times, respectively, because the Company had no long-term borrowing from financial institutions while most of its liabilities were current liabilities. Therefore, the increase in liabilities was mostly from the increase in trade payables that rose in tandem with higher contracted revenues. The Company also has high interest coverage ratio since it had but small interest bearing debt. In 2012 and 2013, the interest coverage ratios were at 208.20 times and 1,010.76 times, respectively.

Contingent Liabilities

As of December 31, 2013, the Company had contingent liabilities, which may occur from issuing letter of guarantee (L/G) by the banks both in Baht and in foreign currencies. The total amount of guarantees was approximately Baht 759.70 million (based on the Bank of Thailand's exchange rate data of average selling rate of commercial banks on December 27, 2013). This obligation could affect to future cash flows from business operations.