

Management Discussion and Analysis



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Analysis of the company's operating results and financial standings

Overall economic situation during the past year 2013

The year 2013 proved to be a considerably difficult year for both Thailand's economy and the business community as a whole. Against the backdrop of a slowly recovering global economy, the country's economy, however, had to endure several harshly adverse developments during the year.

Major critical impacts included the sharp hike in minimum wages to Baht 300 per day implemented across the country, coupled with the drastic volatility in exchange rates movement, causing the Thai currency to strengthen its value at such rates higher than its counterparts in the region, particularly against such major currencies as the Japanese yen and the US dollar. Consequently, the stronger Baht led the country to lose its competitiveness against others in the international trade arena.

On the other hand, the domestic economy continued to face persistent stagnation, significantly affecting both the consumption and the investment sectors at the same time. Such harsh situation was aggravated further by the prolonged political conflict within the country, continuing unabated with no immediate end in sight, in turn hindering the country's economic developments, and eroding the confidence among international investors and visitors destined for the country.

1. Analysis of performance results for 2013 as compared to 2012

Overall performances

For 2013, Thai Wacoal Public Company Limited and its subsidiaries could achieve sales turnover of Baht 3,629.51 million, and net profits of Baht 254.34 million, representing a decline of 11.36% and 39.05% respectively, while its total assets stood at Baht 6,026.74 million, representing a 6.05% decline, with its return on equity, and return on assets standing at 4.98% and 4.09% respectively.

Major factors contributing to above results could be largely summarized as follows:

Sales turnover from product sales and services

For 2013, the company could achieve total sales turnover of Baht 3,629.51 million, representing the decline of Baht 465.18 million or 11.36% compared to Baht 4,094.69 million recorded earlier for 2012.

Above sales decline could be largely attributed to substantial drop for both the domestic and export sales revenue. The domestic sales turnover posted a decline of Baht 283.03 million or 10.02% compared to a year earlier, largely due to the changes implemented by its major distributor with regard to its inventory management system, causing the cutback in its purchasing orders as the result. The situation was further aggravated by the prolonged political conflict ongoing in the country, significantly affecting the tourism industry as well as the overall market consumption.

On the other hand, the company's export sales revenue was also subject to substantial decline of Baht 182.15 million or 14.33% compared to a year earlier, due to the Thai Baht appreciation, resulting in less revenue amount for the same export volume.



Other income

For 2013, the company recorded other income of Baht 129.12 million, as compared to Baht 125.06 million achieved a year earlier, classified into interest income of Baht 56.61 million, rental income of Baht 15.47 million, and exchange gain of Baht 17.11 million, altogether representing a 3.25% or Baht 4.06 million increase over the preceding year. Said improvement could be attributed to the foreign exchange gain due to its earlier adoption of the forwarding contract.

Cost of sales

For 2013, the company's cost of sales stood at 78.17% of total sales turnover, as compared to 75.96% recorded in earlier 2012, representing a 2.21% increase from the year earlier, as the result of the rise in direct expenses due to the sharp hike in minimum wages, coupled with less gross profit from export sales due to the Baht appreciation.

Selling expenses

For 2013, the company posted selling expenses of Baht 96.82 million, as compared to Baht 63.34 million recorded a year earlier, representing an increase of Baht 33.48 million or 52.86%, largely caused by high advertising and sales promotion expenses budget, to promote the marketing of its new lingerie brand "B'me", mainly through the modern trade channel.

Administrative expenses

For 2013, the company posted administrative expenses of Baht 510.27 million, as compared to Baht 518.87 million recorded a year earlier, representing a decline of 1.66%, largely due to the reversal of loss from goods returned and the decline in company employee expenses.

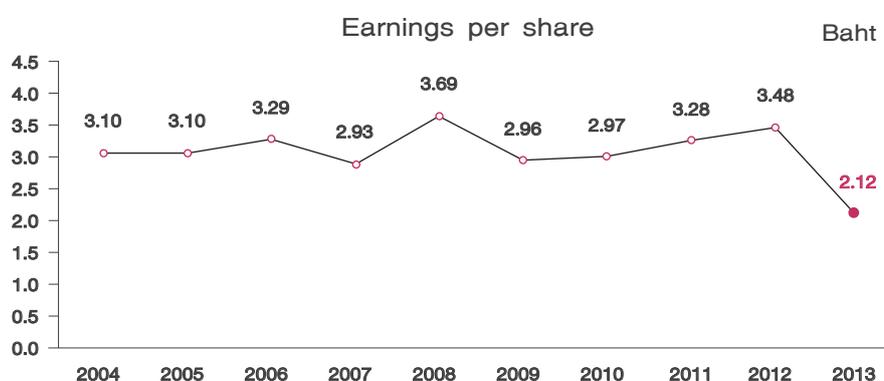
Income tax expenses

For 2013, the company posted income tax expenses of Baht 41.34 million, representing a Baht 51.30 million decline over Baht 92.64 million recorded a year earlier, largely due to less profits achieved by the company, together with lower corporate income tax rate of 20%, compared to the previous 23% rate a year earlier.

Net profits attributable to owners of the parent

For 2013, the company registered net profits of Baht 254.34 million, representing a decline of Baht 162.98 million or 39.05% from Baht 417.32 million recorded a year earlier. Whereas earnings per share stood at Baht 2.12, return on total revenue at 6.65%, return on equity at 4.98%, and return on assets at 4.09% respectively. Said decline in net profits could be largely attributed to less sales revenue from domestic sales, accompanied by lower gross profits from export sales due to the Baht appreciation, and higher production cost caused by the minimum wage increase.

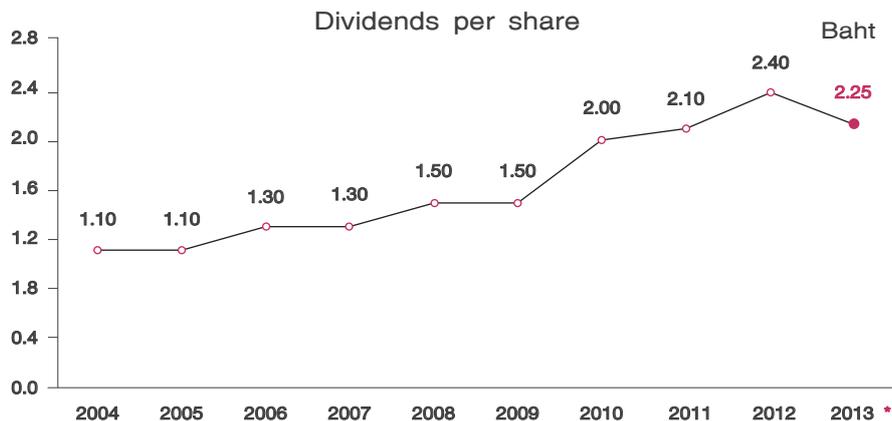
The company's profit quality could be considered favorable, with the company posting cash flow from operating activities of Baht 175.27 million, due to sales income and payment collections mostly achieved according to due dates.



Dividend payments to the shareholders

The company has continuously adopted dividend payments policy at the rate of Baht 0.25 per share so far, while also taking into consideration the company's performance results and the prevailing economic situation. The company has continuously paid out dividend payments to the shareholders for 40 consecutive years from 1974 until the present.

For 2013, the company could achieve net profits of Baht 254.34 million and earnings per share of Baht 2.12. Accordingly, The Board of Directors resolved at its meeting no.6/2013 on March 4, 2014, to propose to the shareholders' general meeting to approve dividend payments for 2013 at the rate of Baht 2.25 per share, for total amount of Baht 270 million, and representing the payout ratio of 106.16%. The dividend payments date has been set for May 20, 2014.



Remark * The Board of Directors resolved to set dividend payment rate at Baht 2.25 per share, for further proposal to the shareholders' general meeting for approval, on April 21, 2014.

2. Financial Standings

At end-2013, the company posted total assets of Baht 6,026.74 million, representing a 6.05% or Baht 387.78 million decline over the year earlier, as the result of the decline in current assets of Baht 786.13 million, and the increase in non-current assets of Baht 398.36 million respectively. The company posted the ratio of each asset item as compared to total assets as follows : cash and cash equivalents of 1.75%, current investments of 9.27%, trade and other receivables of 10.15%, inventories of 15.15%, available-for-sale securities investments of 28.92%, other long-term investments of 11.63%, property, plant, equipments-net of 14.73%, payment for land deposit of 3.44%, and other items 4.96% respectively.

Current assets

At end-2013, the company posted total current assets of Baht 2,322.47 million, representing a Baht 786.13 million decline from a year earlier, due to lower standings in cash and cash equivalents, and temporary investments as the result of its earlier investments in such assets as land plots, buildings, and equipments to serve its further business expansion. Furthermore, the company could register lower inventory level, due to its better effective management system in achieving more optimum inventory level.

Non-current assets

At end-2013, the company posted total non-current assets of Baht 3,704.27 million, representing a Baht 398.36 million increase from a year earlier, due to the payment for land deposit of Baht 207.50 million and the increase in property, plant, equipments-net of Baht 149.44 million.

Cash and cash equivalents

At end-2013, the company recorded total cash and cash equivalents of Baht 105.50 million, representing a Baht 69.26 million decline over Baht 174.76 million recorded a year earlier, due to the transfer to long-term debt securities with over 1-year term, as displayed under heading of long-term investments.

Temporary investments

At end-2013, the company recorded total temporary investments of Baht 558.45 million, representing a Baht 624.70 million decline from Baht 1,183.15 million recorded a year earlier, due to its higher investments in such assets as land plots, building, and equipments. Furthermore, the company also made further investment in ordinary shares, debentures, and bonds, serving as long-term investments with higher return yield.

Trade and other receivables

At end-2013, the company posted total trade and other receivables of Baht 611.98 million, representing a Baht 24.56 million decline from a year earlier, as the result of lower sales turnover, which could be classified into : trade receivables of Baht 593.39 million, and other receivables of Baht 18.69 million. Whereas trade receivables could be classified as follows: undue account receivables of Baht 398.96 million, representing 67.25% of total account receivables, less than 3 months' overdue account receivables of Baht 122.44 million, representing 20.64% of total account receivables, largely due to the customers having different payment periods from the company, and beyond 3 month's overdue account receivables of Baht 71.89 million, representing 12.12% of total account receivables respectively. In general, the company's trade receivables could be considered as reliable with good payment record mostly meeting due dates.

Short-term loans

At end-2013, the company posted total short-term loans of Baht 110.80 million, representing a Baht 14.90 million increase from the year earlier, due to its higher provision of loans to both related business facilities, as well as other business operations.

Inventories

At end-2013, the company posted total inventories of Baht 913.09 million, representing a Baht 81.60 million decline from the year earlier, as the result of its implementation of inventory management system to keep inventories at optimum level compatible with production and sales situation.

Property, plant and equipments

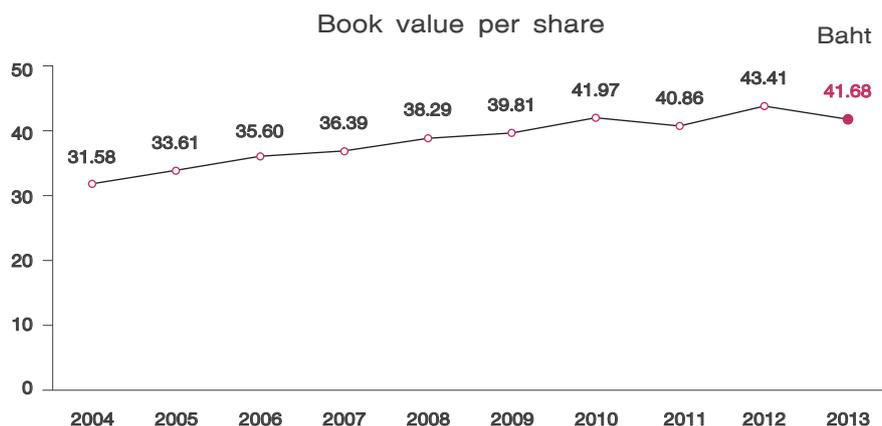
At end-2013, the company posted outstanding property, plant and equipments-net amounting to total value of Baht 887.91 million, representing a Baht 149.44 million increase from the year earlier, due to its further investments to renovate and expand factory buildings, machineries, and equipments for total amount Baht 222.57 million, accompanied by total depreciation amount of Baht 73.13 million.

Total Liabilities

At end-2013, the company posted total liabilities of Baht 1,024.73 million, representing Baht 180.24 million or 14.96% decline from a year earlier, largely due to the company posting lower trade payables and other payables of Baht 118.54 million, classified into less trade payable accounts by Baht 49.80 million, and less other payable accounts by Baht 68.74 million, Said less liabilities could be attributed to less materials procurement due to the adjustment in production plan resulting in lower outstanding inventory level, together with less deferred tax liabilities by an amount Baht 44.42 million, due to the revision in accounting practice allowing unrealized gain on the change in value of available-for-sale securities.

Equity

At end-2013, the company recorded total equity of Baht 5,002.01 million, representing a Baht 207.54 million or 3.98% decline over Baht 5,209.55 million recorded a year earlier. Such results were contributed by net profits of Baht 254.34 million, and its dividend payments to the shareholders for 2012 for total amount Baht 288 million, together with the decline in other components of equity of Baht 173.88 million, altogether resulting in the company eventually posting book value at end 2013 of Baht 41.68 per share, representing a Baht 1.73 decline over the previous Baht 43.41 recorded a year earlier.



3. Quality of assets

Available-for-sale securities investments

The company registered total available-for-sale securities investments of Baht 1,742.87 million, representing an increase of Baht 6.87 million over Baht 1,736 million recorded a year earlier, largely due to the investment in debentures for amount Baht 218.89 million and the additional investment in ordinary shares for amount Baht 6.74 million, together with the unrealized loss on the change in value of available-for-sale securities for amount Baht 218.76 million.

The company followed Thai Accounting Standard no.105 pertaining to the accounting for investment in debt and equity securities, which posted unrealized gain for the change in net investment value from deferred income tax, as displayed in other components of equity for amount Baht 604.94 million, as the result of the changes in securities value in accordance with the company's performance results and the prevailing economic situations. Such investments represented sound assets quality, supported by favorable dividend returns higher than normal fixed deposit rates.

Other long-term investments

The company registered other long-term investments of Baht 700.67 million, representing a decline of Baht 1.03 million from Baht 701.70 million recorded a year earlier, Said long-term investments largely consisted of the investments in net ordinary shares of Baht 63.35 million, net debentures of Baht 20 million, the reversal of loss on impairment of investment of Baht 5.62 million, and the transfer of debentures having due dates within 1-year period to short-term investment of Baht 90 million respectively.

The company followed Thai Accounting Standard no.36 regarding the impairment of assets for the investment in companies not being listed on the SET by reviewing such impairment of investments on a yearly basis. For 2013, an impairment of investment of Baht 5.62 million was re-entered, whereas said investment still posted overall book value higher than the company's investment cost, while its dividend yield was also higher than fixed deposit rate benefits.

Property, plant and equipments

The company possessed property, plant and equipments having market value higher than the value presented in the financial statements which displayed cost less accumulated depreciation. As for equipments, most were modern equipments with good production efficiency procured as replacement for older ones, and received proper maintenance regularly.

4. Liquidity status

Cash flow

For 2013, the company recorded net cash and cash equivalents of Baht 105.50 million, representing a Baht 69.26 million decline from Baht 174.76 million recorded a year earlier, due to its investment in deposits and debt securities with over 1-year term maturity, classified as available-for-sale securities investments and other long-term investments.

The company posted cash receivable from operations of Baht 175.27 million, representing a Baht 61.47 million decline from Baht 236.74 million recorded a year earlier, as the result of the decline in sales turnover compared to a year earlier.

The company posted net cash flow from net investment activities of Baht 43.53 million, classified into cash receivable from matured net deposit of Baht 428.76 million, dividend receivable of Baht 67.64 million, interest receivable of Baht 60 million, and revenue from the sales of land plot, building, and equipment of Baht 13.55 million as against the expenses stemming from the purchase of land plot, building, and equipments, together with the deposit on land plot, for total amount Baht 422.75 million, ordinary shares purchase of Baht 71.45 million, net debenture investment of Baht 20 million, and other expenses of Baht 12.22 million respectively.

The company utilized Baht 288.06 million in net cash for financial activities during the past year, as dividend payments to the shareholders.

Liquidity adequacy

The company registered better liquidity adequacy, as reflected in its current ratio of 4.44 recorded in 2013 compared to 4.60 a year earlier, whereas its quick ratio in 2013 stood at 2.40 compared to 2.92 recorded a year earlier. The company posted cash and cash equivalents well sufficient to carry out dividend payments and future investments. Furthermore, the company posted its low debt to equity ratio of 0.20 for 2013 and 0.23 for 2012 respectively, well reflecting sound and sufficient adequacy of the company's liquidity.

Funding source

The funding source for the company's operations and investments came from its capital and accumulated profits, without any debts carrying interest burdens. The company's liabilities as shown in the financial statements mostly were trade and other payables, deferred tax liabilities, and provision for retirement benefit. According to the financial statements at end 2013, the company posted total liabilities of Baht 1,024.73 million and equity of Baht 5,002.01 million respectively.

Factor or development posing possible impact on the company's future financial standing or business operations

During 2013, the company entered into joint business investment in Pattaya Myanmar Co., Ltd., an associate company, with the shareholding proportion of 20%. Said investment was aimed at exploring the investment prospects for countries within the AEC, in the efforts to expand the manufacturing base and consumption market to those countries enjoying lower production costs, so as to contribute to such better manufacturing and business competitiveness, leading to further profits and business growth on a long-term basis.

Nevertheless, the company and its subsidiaries were not presently engaged in any research & development activities posing possible impacts on its operating results and financial standings in a significant manner.

5. Financial ratios compared between 2013, 2012, and 2011

	Unit	2013	2012	2011
Liquidity Ratio				
1. Current Ratio	times	4.44	4.60	4.63
2. Quick Ratio	times	2.40	2.92	3.09
3. Liquidity of Cash Flow from Operations	times	0.29	0.35	0.27
4. Receivable Turnover	times	6.02	7.04	6.89
5. Collection Period	day	59.80	51.14	52.25
6. Inventory Turnover	times	5.40	6.61	7.23
7. Inventory Turnover Period	day	66.67	54.46	49.79
8. Account Payable Turnover	times	9.55	9.70	9.30
9. Payment Period	day	37.70	37.11	38.71
10. Cash Cycle	day	88.77	68.49	63.33
Profitability Ratio				
1. Gross Profit Margin	%	21.83	24.04	24.93
2. Return on Total Revenues	%	6.65	9.76	10.03
3. Return on Equity	%	4.98	8.25	7.93
Efficiency Ratio				
1. Return on Assets	%	4.09	6.73	6.79
2. Assets Turnover	times	0.62	0.69	0.68
Financial Policy Ratio				
1. Debt to Equity Ratio	times	0.20	0.23	0.22
2. Interest Coverage Ratio	times	3,577.28	700,826.04	2,786,816.53
3. Payout Ratio	%	106.16 *	69.01	63.97

Remark * The Board of Directors resolved to set dividend payment rate at Baht 2.25 per share, for further proposal to the shareholders' general meeting for approval, on April 21, 2014.