



บริษัท สหอุตสาหกรรมน้ำมันปาล์ม จำกัด (มหาชน)
United Palm Oil Industry Public Company Limited

CORPORATE HEADQUARTERS

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**Subject: To submit the Interim Management Discussion and Analysis
For the three-month period ended March 31, 2019**

To: Directors and Managers of the Stock Exchange of Thailand

United Palm Oil Industry Public Company Limited (UPOIC) and its subsidiaries would like to inform the operating result for the three-month period ended March 31, 2019 which had net loss for the period Baht 17.2 million, compared to the same period of 2018 with net profit at Baht 33.7 million, decreased Baht 50.9 million or 151%.

The Company would like to submit the interim management discussion and analysis for the three-month period ended March 31, 2019.

Please be kindly informed.

Sincerely yours,

(Miss Anchalee Suebchantasiri)
Managing Director

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A Subsidiary of Lam Soon (Thailand) Public Company Limited

INTERIM MANAGEMENT DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2019

Q1/2019 Industry Overview

In Q1/2019, the industry sentiment was still influenced negatively by anti-palm oil news from EU. In March 2019, the European Commission (EC) adopted a draft delegated act specifying the sustainability criteria for biofuels and classifying palm oil as unsustainable. Furthermore, an increase of excessive growth in supply leading to the huge surplus of Crude Palm Oil (CPO) stock in the global market. It is expected that global CPO production in 2019 would be as high as 73-75 million MT, 85% of which was derived from Indonesia and Malaysia at 45 and 20 MT respectively, while CPO production from Thailand would contribute around 3 million MT. This was putting downward pressure on the CPO price. The monthly average price of CPO in Malaysia during Q1/2019 was as low as 15.90 Baht/Kg (Q1/2018: 19.99 Baht/Kg) (Source: Internal Trade Department). Palm Oil stocks in Malaysia at the end of March 2019 was at 2.9 Million MT (March 2018: 2.3 Million MT).

In Thailand, the monthly average prices of FFB and CPO in Q1/2019 were at 2.67 and 16.04 Baht/Kg respectively (Q1/2018: 3.73 and 20.34 Baht/Kg) which were the lowest levels in more than 13 years. Therefore, the Commerce Ministry proposed several measures which is aimed at absorbing the huge surplus of CPO and push up prices in the Kingdom. These included requirement for the Electricity Generating Authority of Thailand (EGAT) to use 160,000 MT of CPO to produce electricity. The government also put effort to promote Biodiesel B20 and B10. The retail price of B20 has been subsidised at 5 Baht lower than B7 from February until May 2019. B20 is targeted to be available at widespread petrol stations. The next step for policymakers is to mandate B10 instead of B7 by announcing incentives to encourage motorists to shift from B7 to B10 shortly.

Financial Performance and Analysis Explanation

Estate Operations

The overall own crop in Q1/2019 increased by 4.8%, compared to the same period of 2018 which was the same trend with industry overview; crop from own estate area increased by 13.7% from replanting area harvesting since last year with a higher bunch weight while crop from concession area decreased by 17.6%.

Mill Operations

In Q1/2019, the Company's out-grower crops decreased by 27.2% compared to same period in 2018. Even though FFB output in the Kingdom in Q1/2019 was abundant as explained above but the FFB purchased from out-grower was decreased. The proportion of FFB from out-grower and own estate in Q1/2019 was 51.8% and 48.2% of total FFB in processed (Q1/2018: 60.8% and 39.2%). This was due to increase of excessive growth in supply while consumption remain the same resulting in lowest levels of average price of CPO. At the same time, the Crushing Mill was completing to buy FFB making CPO cost more expensive than the market prices. Therefore, the Company slowed the purchase of FFB from out-grower.

The cost of out-grower crops decreased by 26% and cost of own crops decreased by 7.3%. As a result, the Company's total cost of corps decreased by 21.1% resulted from the abundant output of FFB in the Kingdom. However, in this period, the Company recognized of loss from change in fair value of inventory which caused to cost decreased in lower proportion than average selling prices per unit of crude palm oil and crude palm kernel oil decreased by 16.0% and 30.3% respectively, leading to the gross profit margin decreasing from 22.2% to 3.9%.

INTERIM MANAGEMENT DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2019

1. Sales

The Company, its subsidiaries and its jointly controlled entity recorded total sales in Q1/2019 decreasing by 81.8 million Baht or 44.4% from the same period of 2018. This was because of the decrease in the sale volume and the average selling price per unit of CPO by 36.8% and 16.0% respectively. Even though the sale volume of CPKO increased by 153.7%, the average selling price per unit of CPKO decreased by 30.3%.

2. Cost of Sales and Selling and Administrative Expenses

- In Q1/2019, cost of sales of the Group was 96.1% of net sales, higher than the same period of prior year 18.3% (Q1/2018: 77.8%), even though FFB cost of own crop has dropped 21.1%. The Company recognized loss from change in fair value of inventory in this period as above mentioned leading to cost of sales ratio increasing.
- Selling Expenses decreased by Baht 1.4 million from goods transportation, in line with sale volume.
- Administrative Expenses increased by Baht 5.1 million mainly from land expenses and legal fee.
- Loss from change in fair value of biological assets Baht 3.9 million (Q1/2018 : Gain Baht 6.9 million)

3. Consolidated Profits

According to reasons above, the Group had gross loss of Q1/2019 Baht 4.0 million (Q1/2018: profit Baht 41.0 million) decreased by Baht 37.0 million. In addition, there was a record loss resulted from the Company has adopted TAS 41 Agriculture and Accounting Treatment Guidance for Recognition and Measurement of Bearer Plant, while selling and administrative expenses slightly increased from prior year. Thus, the Group has net loss Baht 17.2 million, decreased by Baht 50.9 million (Q1/2018: Net profit Baht 33.7 million), and loss per share in Q1/2019 was 0.05 Baht, decreased from prior year 0.15 Baht (Q1/2018: profit per share 0.10 Baht).