



2nd Quarter Report 2020

State Trading Organization plc

Reporting Principles



This is the second quarter report of State Trading Organization plc. for the year 2020.

In compiling this report, STO has made its best efforts to adhere to the Listing Rules, the Corporate Governance Code of Capital Market Development Authority and the Securities Continuing Disclosure Obligation of Issuers Regulation 2019.

This report includes events for the period from 01st April 2020 to 30th June 2020. This report also includes disclosure regarding the Covid-19 pandemic.

Report was published on 30th July 2020.

KEY FACTS



Key Figures

Total Revenue

1,299

(in million) MVR

Operating Profit

156

(in million) MVR

Net Profit

105

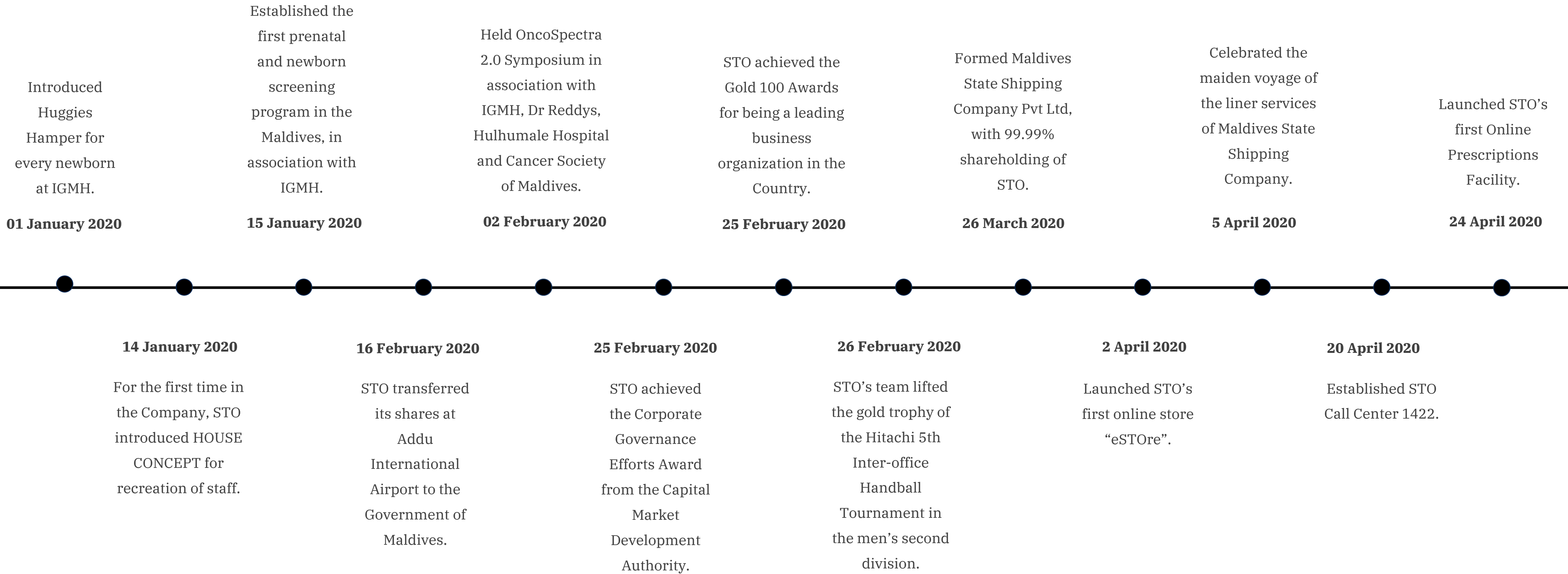
(in million) MVR

Earning per Share

93

MVR

This Year so Far



Human Resources

Employees

2,070

Male Employees

1,337

65% of total employees

Female Employees

733

35% of total employees

Local Employees

1,677

81% of total employees

Foreign Employees

393

19% of total employees

MAIN EVENTS



Corporate Events

1



Celebrating the maiden voyage of the liner services of MSS

On 5th April 2020, STO welcomed MV Iberian Express that completed her maiden voyage as the first carrier of Maldives State Shipping. This marked the beginning of the liner services of MSS.

2



STO completed the installation of equipment at Hulhumalé Medical Facility

On 4th June 2020, STO successfully completed the installation of equipment at Hulhumalé Medical Facility established to treat Covid-19 patients. Furthermore, STO delivered the medical supplies and PPE needed to begin operation.

3



Establishment of STO Call Center

On 20th April 2020, STO established a call center to address the rise in customer enquiries resulting from the Covid-19 lockdown and people's dependence on STO to obtain essential food items and prescription medicine.

Corporate Events

4

Launching of eSTOre

STO's online shop eSTOre was launched on 2nd April 2020, as a platform for customers to purchase products amidst the Covid-19 pandemic. It became an invaluable service for residents of Malé during the initial weeks of the lockdown when local businesses scrambled to set up online sales and delivery service.



Corporate Events

5



Online Prescription

Introduction of Online Prescription

Submission Facility

STO on 24th April 2020, launched an online prescription submission portal as a more efficient platform for patients in the greater Malé area to order their prescription medicine.

6



Introduction of BML card payment at

FSM fuel shed

On 7th May 2020, FSM fuel sheds started accepting BML card payments to make it more convenient for the public to obtain fuel services. It was also an important step to help people reduce their handling of cash during the pandemic.

Corporate Social Responsibility

1



Celebrating World Autism Awareness Day

As with previous years, on 2nd April 2020, STO outlets were lit up in blue to celebrate World Autism Awareness Day, showing our love for the numerous families living with this condition every day in our communities.

2



STO Charters a Maldivian flight to carry Covid-19 essential items

On 29th April, STO chartered a Maldivian flight which carried PPE Kits and other essential medical supplies for the fight against Covid-19.

3



Clearing of Aid shipment from India

Aid shipment donated by the Government of India was cleared with the assistance of STO's Staple, Delivery and Clearance teams.

4



Donation of Staple Food supplies

On 3rd June 2020, STO in association with the Gender Ministry, donated staple food supplies to the needy families who were further constrained by the Covid-19 pandemic and lockdown.

SHARE PERFORMANCE



Share Performance

Highest Trade Price

700

In MVR



Lowest Trade Price

700

In MVR



Last Trade Price

700

In MVR



(Last Trade on 29/06/2020)

WATP

700

In MVR

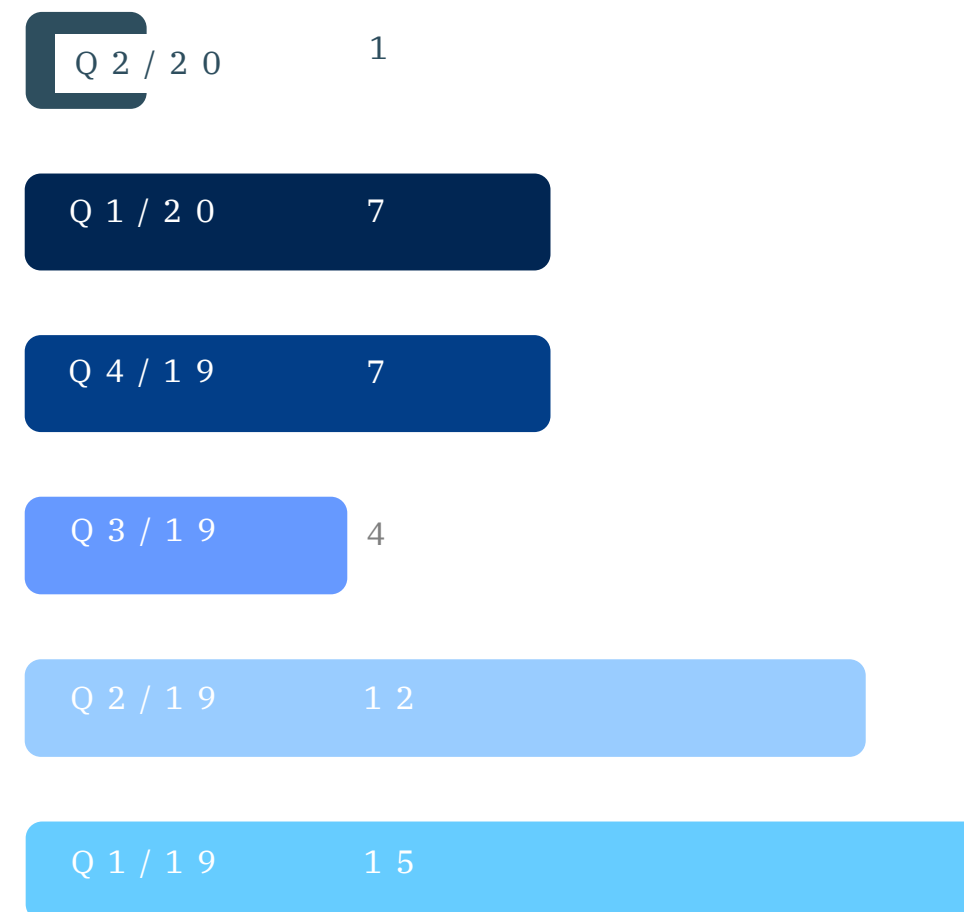


Share Performance

No. of Trades

1

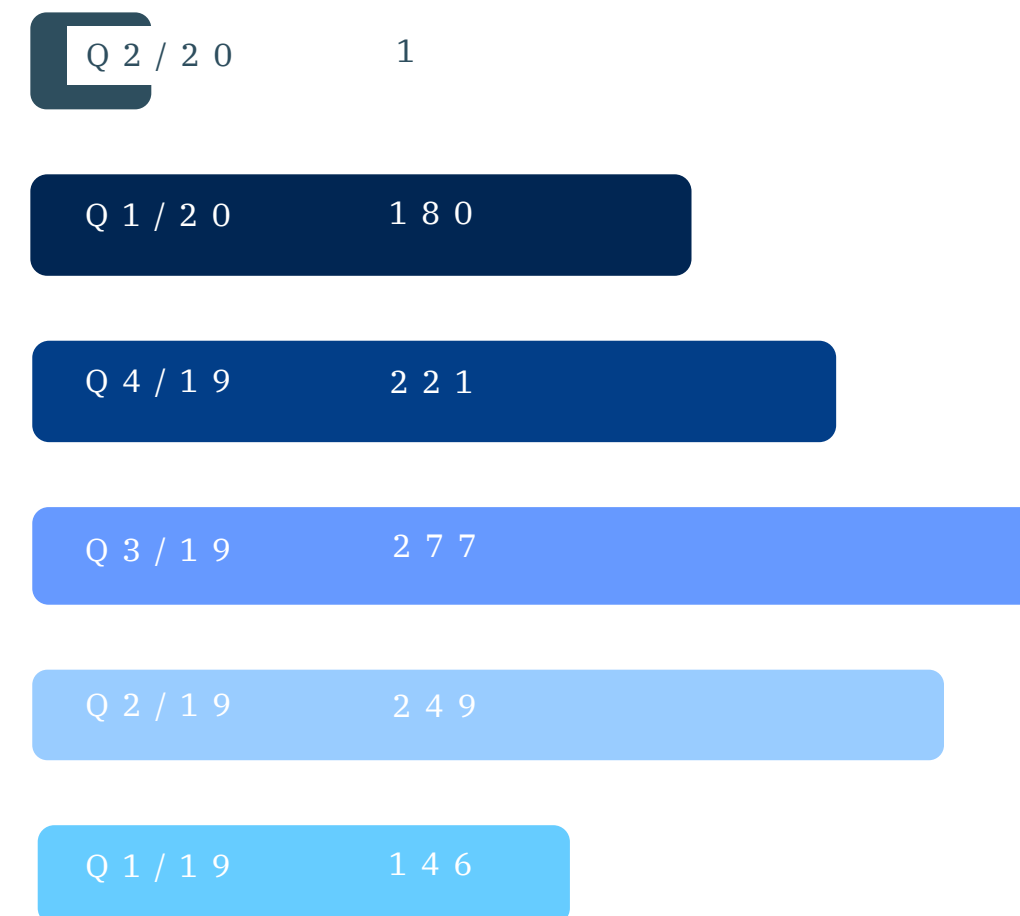
Trade



No. of securities traded

1

share



Value of securities traded

700

In MVR



Share Performance

Market Capitalization

789

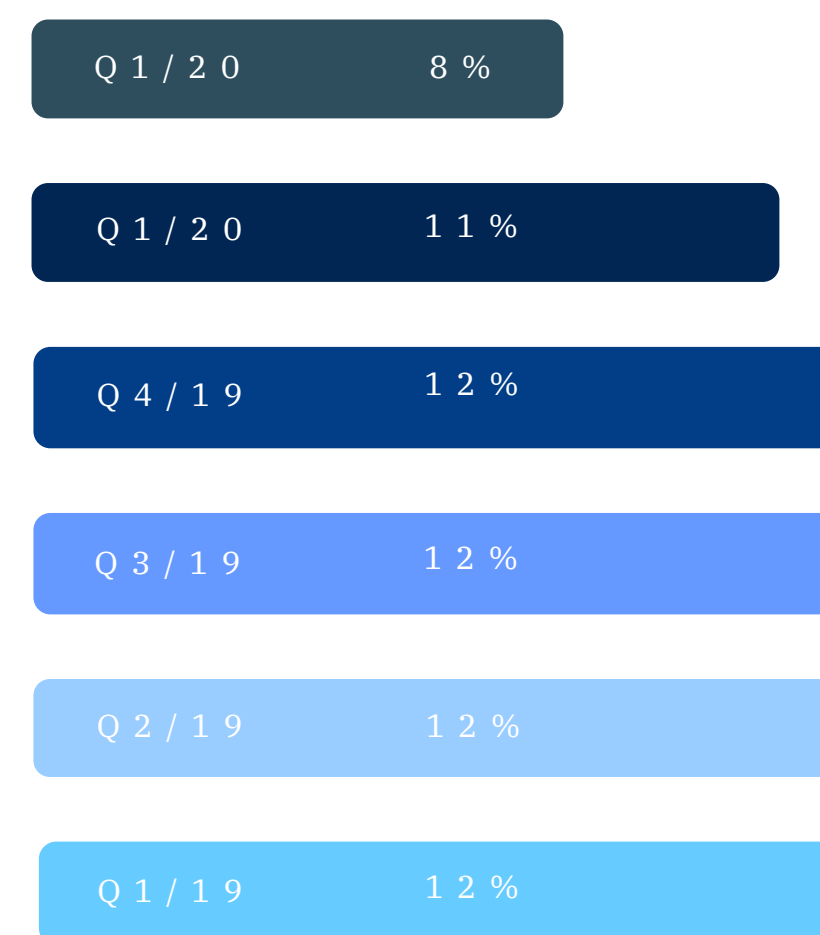
In MVR



Dividend Yield

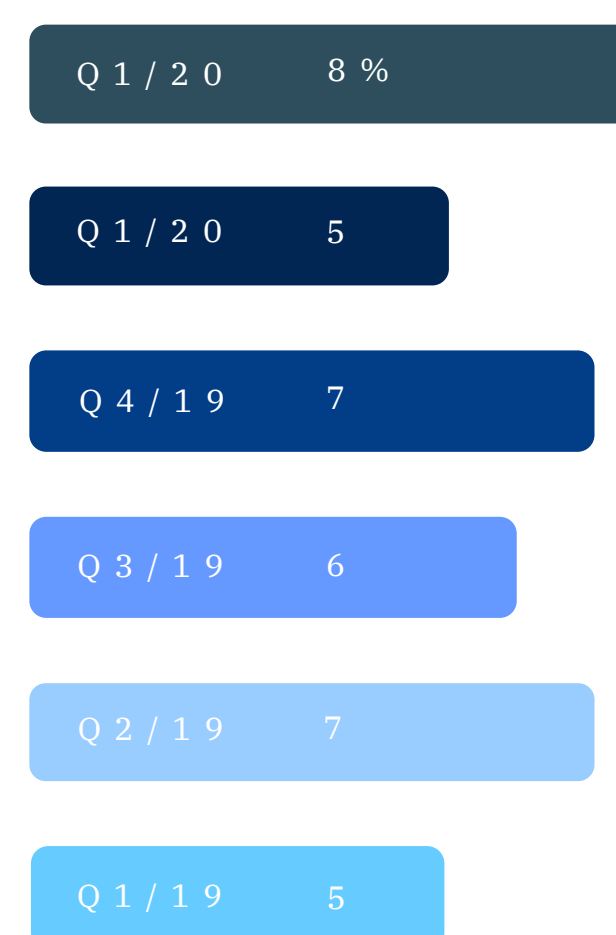
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In %



Price Earning Ratio

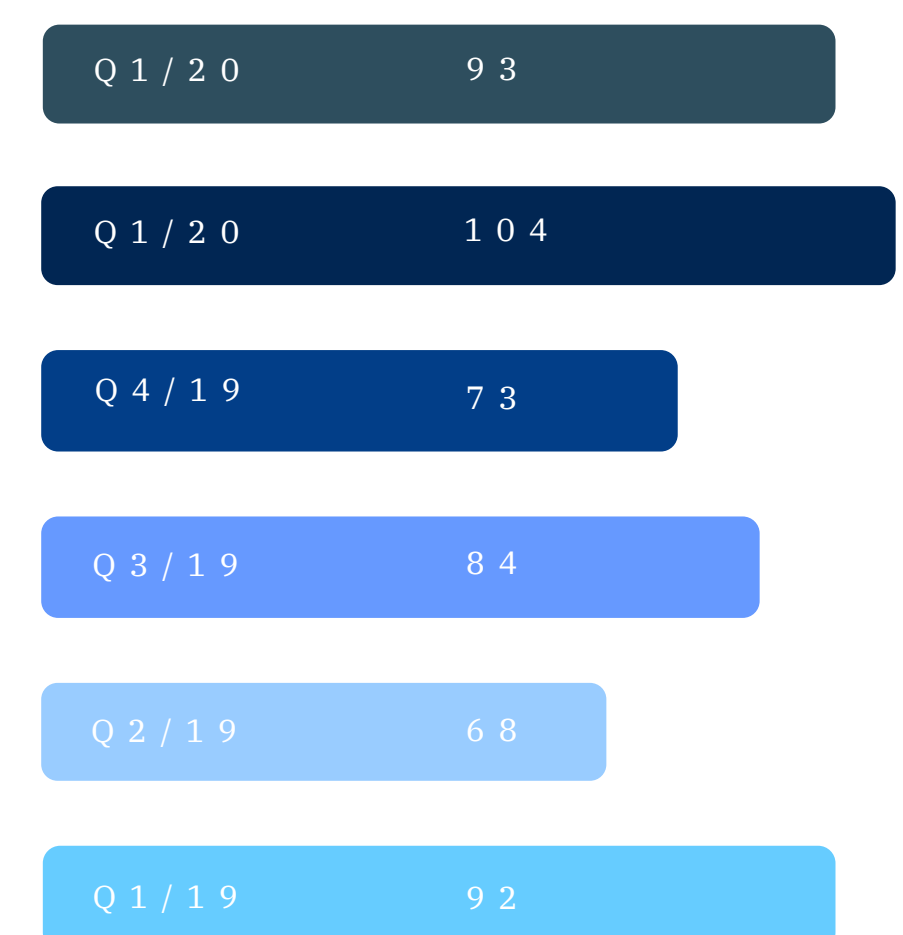
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Earning per share

93

In MVR



(All amounts in million MVR)

* Dividend yield has been calculated based on dividend value of MVR58.00, approved by the shareholders at the last Annual General Meeting.

BOARD ACTIVITIES



Board Directors



Hamid Nasheed Mohamed

Chairman,
Non-Executive, Independent
Director



Husen Amru Mohamed Rashad

CEO & MD,
Executive Director



Mohamed Mihad

Chief Financial Officer
Executive Director



Aminath Rushma

Non-Executive, Independent Director
Chairperson of CG Committee
Member of AR Committee
(Director elected to represent public shareholders)



Ismail Zumayl Rasheed

Non-Executive, Independent
Director
Chairman of NR Committee
Member of AR Committee



Shimad Ibrahim

Non-Executive, Independent
Director
Chairman of AR Committee
Member of NR and CG
Committee



Gais Ismail

Non-Executive, Independent
Director
Member of CG and NR
Committee

Board Activities

The Articles of Association of STO specifies that the Board should comprise of seven directors. This include of five non-executive, independent members and two executive members.

At the Annual General Meeting held on 16 May 2019, the Government appointed 6 members to the Board of Directors while the public shareholders elected 1 member. As such, appointed directors and their positions are given on page 17.

There were no changes to the shareholding structure of the Company. As such the Government of Maldives represents 81.63% shares while the public represent 18.37% of shares in the Company.

There were no known material transactions with Directors, associates or substantial shareholders or an associate, other than those conducted under ordinary course of business.

Major Board Decisions

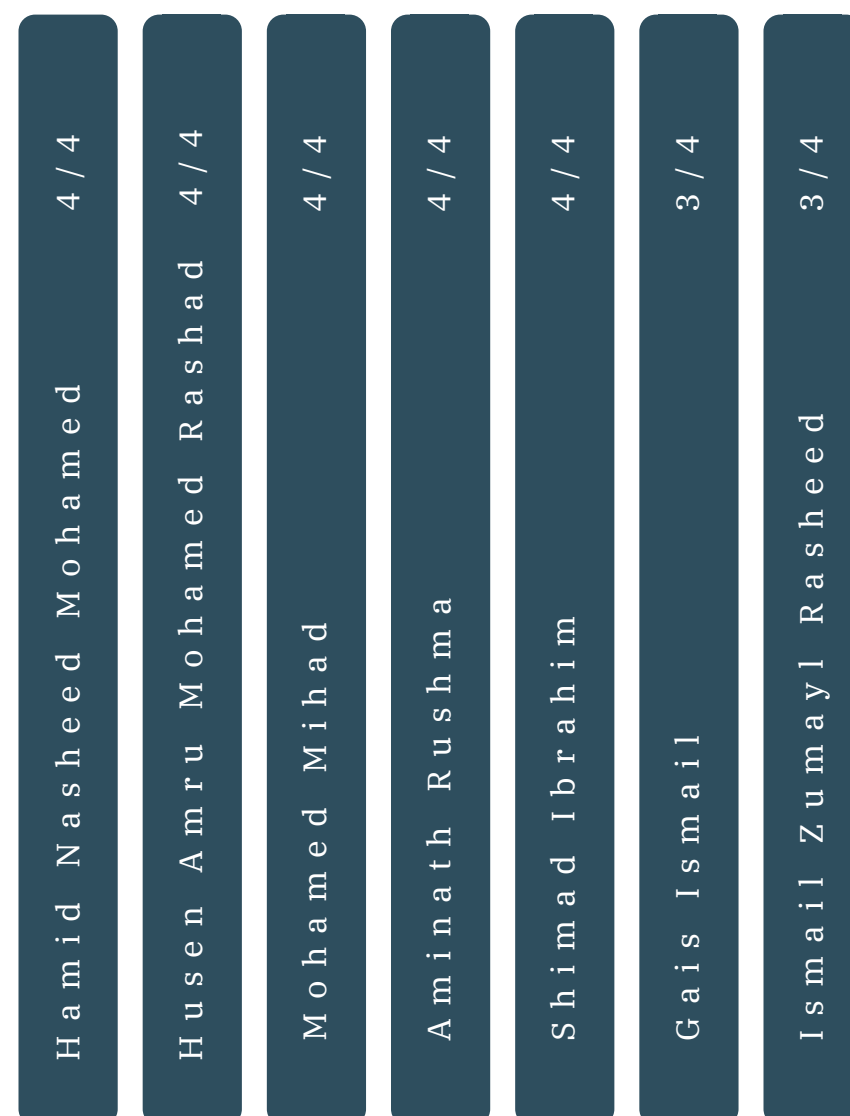
- Approved Quarter 1 report for publication.
- Discussed on taking an action on Ekuhivaru Island and Hulhumale Hotel.
- Revised the restricted persons list given in “The Trading in Securities Guideline” of the Company.
- Discussed on setting up a subsidiary governance framework within STO Group of Companies.
- Revised the Guideline on Administration and Control of Group Company Boards and its Directors.
- Board Committees submitted updates on their discussion and decisions to Board.
- Board Evaluation results were presented and discussed upon.
- Discussed on the financial facilities that were planned to be taken for the company.
- Discussed on the cashflow situations amidst the Covid19 pandemic, from time to time.
- A reduction in salary was approved as proposed by Ministry of Finance, with regard to the Covid19 Pandemic situation.
- Approved to reduce rent for several tenants of the Company.
- Revised Seal Use Policy to include the use of digital seal on company documents.
- Discussed on AGM Agenda, Notice and other arrangements.

Apart from Board Meetings, meetings were held to discuss issues and updates on the work carried out with regard to Covid19 Pandemic.

Meetings and Attendance

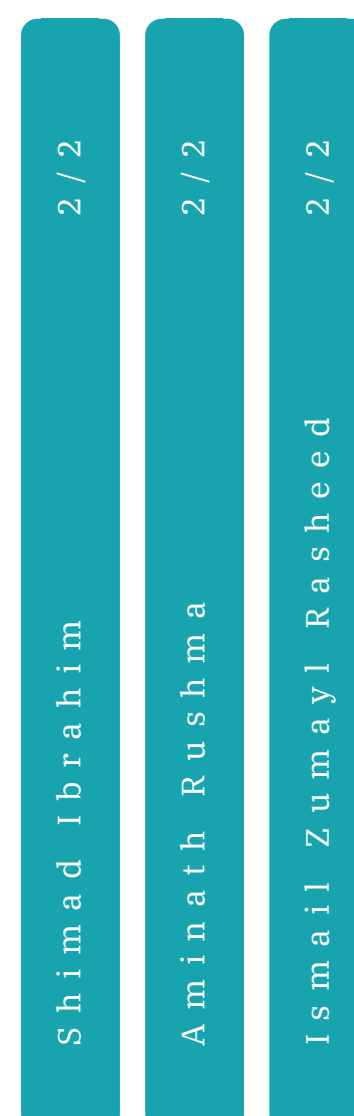
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Board Meetings



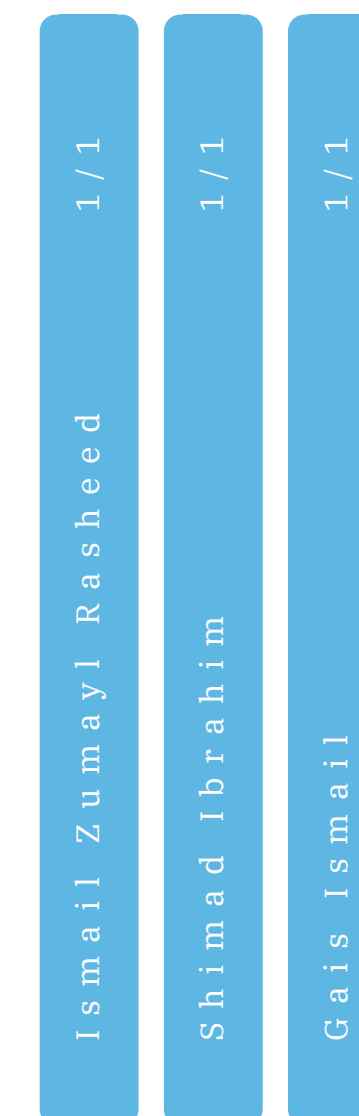
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Audit & Risk Committee



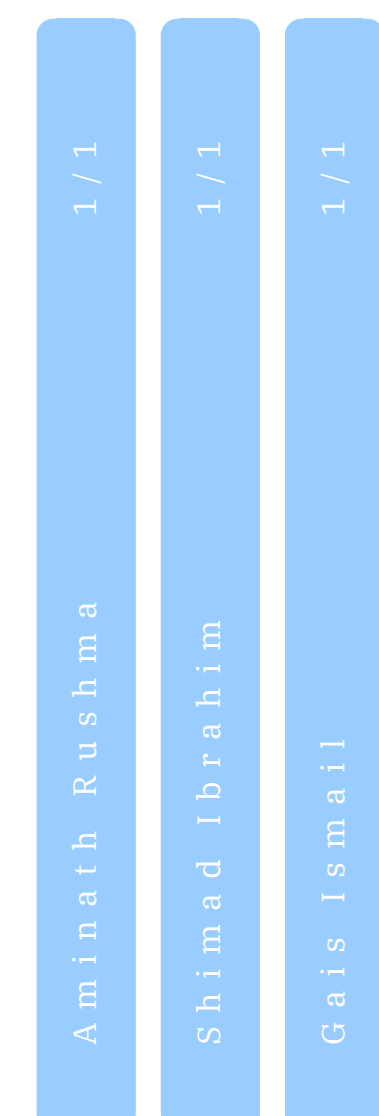
1

Nomination & Remuneration Committee



1

Corporate Governance & Compliance Committee



Compliance

Compliance to Corporate Governance

STO's Board of Directors and Management strongly support the principles of good corporate governance and are committed to embed such principles into the operations and management of STO and its Group.

STO believes that the governance arrangements adopted by STO Group are reflective of a high performing, well governed organization. These arrangements enable the Board and Management to make well informed decisions, provide appropriate accountability and transparency, and establish the proper culture and behaviors. STO also believes that leading governance practices is essential for the long-term sustainability of our businesses.

The Board regularly reviews the Company's corporate governance framework, policies and practices to ensure at a minimum that they meet the expectations of our shareholders and evolve in line with the Corporate Governance Code of Capital Market Development Authority and our own internal processes and practices.

Reporting Compliance

This report has been prepared in compliance with the Capital Market Development Authority's Minimum Criteria for Periodic Reporting for Listed Companies.

There were no fines due on Company with regard to any regulations, during the Quarter.

FINANCIAL PERFORMANCE



Financial Highlights

1,299

(in millions) MVR
Q1/2020 MVR2,492m
Q4/2019 MVR2,351m

Total Revenue

200

(in millions) MVR
Q1/2020 MVR211m
Q4/2019 MVR248m

Total Expenses

105

(in millions) MVR
Q1/2020 MVR114m
Q4/2019 MVR82m

Net Profit

93

in MVR
Q1/2020 MVR101
Q4/2019 MVR73

Earning Per Share

2,164

in MVR
Q1/2020 MVR2,076
Q4/2019 MVR2,020

Net Asset Per Share

490

in MVR
Q1/2020 MVR2
Q4/2019 MVR44

Cashflow Per Share

2.27

Q1/2020 2
Q4/2019 1.92

Asset Cover Available

1.62

Q1/2020 1.52
Q4/2019 1.78

Debt Equity Ratio

1.07

Q1/2020 1.51
Q4/2019 1.07

Debt Service Cover Ratio

5.12

Q1/2020 5.12
Q4/2019 1.61

Interest Service Cover Ratio

2,355

(in millions) MVR
Q1/2020 MVR2,255
Q4/2019 MVR2,192

Reserves

2,439

(in millions) MVR
Q1/2020 MVR2,339
Q4/2019 MVR2,276

Net Worth

Debt Securities

	Q2/2020	Q1/2020	Q4/2019	Q3/2019
Previous due date for the payment of interest/dividend	31.05.2020	29.02.2020	30.11.2019	31.08.2019
Repayment of principal	21,962,355	21,677,833	21,396,997	21,119,800
Interest	4,398,613	4,683,135	4,963,970	5,241,168
The amounts and where the same has been paid or not	Paid	Paid	Paid	Paid
Next due date for the payment of interest/dividend	31.08.2020	31.05.2020	29.02.2020	30.11.2019
The extent and nature of collateral created and maintained with respect of principal	Sovereign guarantee	Sovereign guarantee	Sovereign guarantee	Sovereign guarantee
Breach of any covenants under the terms of debt securities	No	No	No	No

Income Statement

	Q2/2020	Q1/2020	Q4/2019	Q3/2019
Fuel Revenue	629,287,318	1,718,104,140	1,661,674,729	1,586,941,963
Non-Fuel Revenue	669,907,815	773,492,915	688,966,806	659,970,143
Total Revenue	1,299,195,133	2,491,597,055	2,350,641,535	2,246,912,106
Cost of Sales	(953,801,401)	(2,134,037,047)	(2,021,392,945)	(1,906,210,218)
Gross Profit	345,393,733	357,560,008	329,248,590	340,701,888
Other Operating Income	10,383,332	13,121,125	17,509,588	21,168,751
	355,777,065	370,681,133	346,758,178	361,870,639
Selling and Marketing Costs	(42,203,289)	(48,337,885)	(68,613,471)	(43,918,313)
Administrative Costs	(157,051,425)	(161,969,950)	(179,265,721)	(166,378,965)
Other Operating Expenses	(291,168)	(547,950)	(159,992)	(167,602)
Operating Profit	156,231,183	159,825,347	98,718,994	151,405,759
Finance Costs	(29,604,302)	(21,572,426)	(6,985,023)	(38,880,582)
Profit Before Tax	126,626,881	138,252,921	91,733,971	112,525,177
Business Profit Tax Expense	(21,702,656)	(24,060,449)	(9,357,967)	(17,614,901)
Profit After Tax	104,924,225	114,192,472	82,376,004	94,910,276
Attributable to				
Equity Holders of the Parent	104,924,225	114,192,472	82,376,004	94,910,276
Non-Controlling Interest				
Earnings per share Attributable to Equity holders of the Parent	93	101	73	84

Balance Sheet

	Q2/2020	Q1/2020	Q4/2019	Q3/2019
ASSETS				
NON-CURRENT ASSETS				
Property Plant and Equipment	1,814,412,453	1,813,319,242	2,005,279,812	2,021,602,127
Investment in Subsidiaries	104,944,380	104,944,380	104,944,380	112,288,081
Investment in Associates	10,567,267	10,567,267	10,567,267	10,567,267
Investment in Joint Venture	4,700,000	4,700,000	4,700,000	4,700,000
Available-for-sale Financial Assets	2,240,800	2,240,800	4,820,026	4,820,026
Investments	7,346,463	9,038,454	10,730,445	12,422,436
Deferred Tax Asset	80,207,242	103,024,421	115,928,722	115,928,722
Right-of-use Assets	154,232,501	154,232,501	-	-
Total Non-Current Assets	2,178,651,105	2,202,067,065	2,256,970,652	2,282,328,659
CURRENT ASSETS				
Inventories	865,838,467	766,197,008	911,471,653	606,330,958
Trade and Other Receivables	3,133,203,701	2,865,914,751	3,052,205,881	3,004,652,251
Cash and Cash Equivalents	201,462,498	50,884,554	114,720,571	90,584,308
Total Current Assets	4,200,504,665	3,682,996,313	4,078,398,104	3,701,567,518
Total Assets	6,379,155,771	5,885,063,378	6,335,368,756	5,983,896,177
EQUITY				
Share Capital	56,345,500	56,345,500	56,345,500	56,345,500
Share Premium	27,814,500	27,814,500	27,814,500	27,814,500
General Reserve	784,021,576	763,036,730	740,198,236	723,723,035
Retained Earnings	1,570,947,278	1,492,211,447	1,451,737,971	1,392,421,059
Total Equity	2,439,128,854	2,339,408,178	2,276,096,207	2,200,304,094

Balance Sheet

Cont.....

	Q2/2020	Q1/2020	Q4/2019	Q3/2019
LIABILITIES				
NON-CURRENT LIABILITIES				
Loans and Borrowings	210,288,198	259,181,443	284,332,965	309,188,614
Current Liabilities				
Current Tax Liabilities	67,338,005	45,640,848	43,813,922	34,455,955
Lease Liabilities	159,087,803	159,087,803	-	
Trade and Other Payables	1,860,471,936	1,094,527,692	1,672,634,193	1,451,696,059
Borrowings	1,642,840,975	1,987,217,415	2,058,491,468	1,988,251,454
Total Current Liabilities	3,729,738,719	3,286,473,758	3,774,939,584	3,474,403,469
Total Liabilities	3,940,026,917	3,545,655,200	4,059,272,549	3,783,592,083
Total Equity and Liabilities	6,379,155,771	5,885,063,378	6,335,368,756	5,983,896,177



Mohamed Mihad
CFO / Executive Director



Husen Amru Mohamed Rashad
CEO and Managing Director



Shimad Ibrahim
Chairman
Audit & Risk Committee

Cash Flow Statement

	Q2/2020	Q1/2020	Q4/2019	Q3/2019
Profit before business profit tax	126,626,881	138,252,921	91,733,971	112,525,177
Adjustments for:				
- Depreciation & amortization	28,974,541	28,626,705	31,577,699	31,054,379
- Interest income	(751,013)	(841,285)	(894,258)	(970,962)
- Interest expense	30,486,302	31,210,455	61,365,384	39,705,879
- Dividend income	-	(8,000,000)	(54,999,700)	
- Provision for impairment of receivables	6,107,272	4,315,687	6,137,007	(2,324,458)
- Provision for slow and nonmoving inventories	4,192,025	1,191,544	(2,602,863)	(6,434,671)
- Profit on disposal of property, plant and equipment		(124,240)	(41,080)	
Changes in working capital:				
- Inventories	(103,833,484)	150,683,789	(302,537,831)	132,551,392
- Trade and other receivables	(227,704,231)	55,076,128	25,101,355	(18,547,281)
- Trade and other payables	718,858,609	(345,403,905)	255,864,745	(257,084,855)
	582,956,903	54,987,800	110,704,429	30,474,602
Cash flows from operating activities				
Interest paid	(30,486,302)	(31,210,455)	(61,365,384)	(39,705,879)
Business profit tax paid	-	(21,500,964)	-	(20,030,560)
<i>Net cash generated from / (used in) operating activities</i>	552,470,600	2,276,381	49,339,045	(29,261,838)

Cash Flow Statement

Cont....

	Q2/2020	Q1/2020	Q4/2019	Q3/2019
Cash flows from investing activities				
Purchases of property, plant and equipment - net	(9,373,985)	(21,074,465)	(15,214,304)	(97,163,080)
Sales / (purchases) of available-for-sale financial assets		-	7,343,701	
Interest received	751,013	841,285	894,258	970,962
Dividends received		8,000,000	54,999,700	
<i>Net cash generated from / (used in) investing activities</i>	(8,622,972)	(12,233,180)	48,023,355	(96,192,118)
Cash flows from financing activities				
Net proceeds from / (repayment of) borrowings	(393,269,684)	(51,209,811)	(72,017,109)	143,669,671
Dividends paid to shareholders		(198,428)	(1,209,028)	(1,269,793)
<i>Net cash generated from / (used in) financing activities</i>	(393,269,684)	(51,408,239)	(73,226,137)	142,399,878
Net increase / (decrease) in cash and cash equivalents	150,577,944	(61,365,038)	24,136,263	16,945,923
Cash, cash equivalents and bank overdrafts at beginning of the quarter	50,884,554		90,584,308	73,638,386
Adjusted cash, cash equivalents and bank overdrafts at the beginning of the Year		112,249,592		
Cash, cash equivalents and bank overdrafts at end of the quarter	201,462,498	50,884,554	114,720,570	90,584,308

Statement of Changes in Equity

	Share Capital	Share Premium	Reserves	Retained Earnings	Total
Balance as at 1st October 2019	56,345,500	27,814,500	723,723,035	1,392,421,058	2,200,304,094
Profit for the year	-	-	-	82,376,004	82,376,004
Remeasurement of retirement benefit liability (OCI)	-	-	-	(6,583,891)	(6,583,891)
Transfer to general reserve	-	-	16,475,201	(16,475,201)	
Balance as at 31st December 2019	56,345,500	27,814,500	740,198,236	1,451,737,971	2,276,096,207
Impact on reported profit due to audit adjustments	-	-	-	(56,084,050)	(56,084,050)
Adjusted balance as at 1 st January 2020	56,345,500	27,814,500	740,198,236	1,395,653,921	2,220,012,157
Profit for the year	-	-	-	114,192,472	114,192,472
Transfer to general reserve	-	-	22,838,494	(22,838,494)	-
Balance as at 31st March 2020	56,345,500	27,814,500	763,036,730	1,487,007,898	2,334,204,629
Adjusted balances as at 1 st April 2020	56,345,500	27,814,500	763,036,730	1,487,007,898	2,334,204,629
Profit for the year	-	-	-	104,924,225	104,924,225
Transfer to general reserve	-	-	20,984,845	(20,984,845)	-
Balance as at 30th June 2020	56,345,500	27,814,500	784,021,576	1,570,947,278	2,439,128,854



Impact of covid19 on Elements of Financial statement and key determinant of Financial Performance

Following the outbreak of the COVID-19 in early 2020, The Government of Maldives continues to take series of measures to contain the outbreak. In response, STO has formulated action plans to cope with the challenges of Pandemic and implemented them at the business level of our group companies to ensure the safety of our employees, customers, suppliers, agents and all stakeholders. STO continues to pay close attention to the development of COVID-19 and its related impact on the Group's businesses and financials. At the same time, we have revised our financial targets and developed strategies to achieve them in FY 2020.

The following outlines the high-level impact to our businesses.

Impact of covid19 on Elements of Financial statement and key determinant of Financial Performance Cont.....

Revenue

STO's revenue is broadly divided into fuel revenue and non-fuel revenue.

Fuel Revenue

STO expects fuel revenue to be lower compared to the year 2019 and the budgeted revenue at the beginning of the year. The drop is expected due to decrease in price as well as the quantity. However, contrary to initial estimates, the quantity reduction in fuel sales has been lower at the end of the second quarter of 2020. The reason for this can be attributed to increased market share, offsetting the overall market drop in quantity from key market segments, especially tourism sector.

Non-Fuel Revenue

The significant contributor to non-fuel revenue is supply of pharmaceutical items and medical equipment. STO entered into an agreement with the Government of Maldives to supply medical items for the Covid-19 relief effort. This has increased the sales of the medical segment. In addition to this, STO also agreed with the government to procure medical equipment for establishing 4 regional tertiary hospitals. The revenue increase from Covid-19 related sales combined with billing of equipment delivered under 4 hospital project is expected to increase the Medical segment's revenue compared to 2019.

Revenue from essential food (staple foods) supplies is expected to be higher in 2020 compared to 2019, mainly due to increase in consumption during the lockdown.

Other contributing businesses to this segment, mainly Construction, Home Improvement and Supermart items are all expected to generate significantly lower sales; hence the budget has been revised down and this is likely to be lower compared to 2019.

Impact of covid19 on Elements of Financial statement and key determinant of Financial Performance Cont.....

Gross profit

Despite a 20% drop in revenue during the first half of 2020, the gross profit has increased by 3%. This is mainly due to increased sales from Medical segment and increased GP margin from Fuel business. Gross profit for the year 2020 is expected to be in par with the GP of 2019 after factoring the impact of COVID19.

Expenses and Net profit

To mitigate the financial impact of COVID-19 on the business, since the outbreak STO has taken measures to reduce the overall operational expenditure, focusing on reducing non-essential expenses, subject to further review depending on the change in business activities. Total operational expenditure in the first half of 2020 is lower than the same period of 2019, following the cost reduction strategies adapted by STO. Further to this, there is a notable reduction in finance cost following the reduction in payable to oil suppliers / financiers. Expected total operating and finance expenses are likely to be lower than that of 2019, mainly from internal cost cutting measures and lower exposure to oil bills.

The net profit of 2020 is expected to be higher compared to 2019, resultant from maintaining GP at same level of previous year and reducing operating expenses.

Non- Current Assets

As at 30th June 2020, 68% of fixed assets in the books of STO constitutes of land, buildings and Vessels. The value of fixed assets is not significantly affected by the Covid-19. However, rent income from investment properties is expected to go down due to significant concessions offered to tenants.

Impact of covid19 on Elements of Financial statement and key determinant of Financial Performance Cont.....

Current Assets

Significant components of current asset base is shown as per the below schedule;

Description	%
Inventories	21%
Receivables	74%
Cash Reserves	5%

Since STO is responsible for managing the strategic reserve of essential medicine, fuel and staple foods STO has invested significant amount of cashflow in inventory of these goods, to safeguard the country from potential supply chain disruptions. STO is also aware of the risk of increasing provisions on inventory due to expected fall in sale of supermart, home improvement and significant buildup of inventory in medical segment. Internal monitoring procedures and KPIs have been developed within the Company, to maintain a balance between availability of products to continue uninterrupted supply and minimize the impact from non-moving inventories.

About 65% of STO's receivable is directly or indirectly exposed to public sector. Health Sector Supplies and Fuel sales account to almost 90% of the receivables. There is a significant increase in amount due from utility companies as well as a slowdown in collection from government. The management is aware of the impact on strained government cashflow translating directly to cashflow of STO.

In order to reduce the impact of COVID-19 on the private sector, STO has extended approximately MVR 85 million credit to the private sector by ensuring continuous supply of essentials during the lockdown period. However, by realizing the fragility of business environment STO has significantly tightened credit exposure limits. Despite the changes brought to credit guidelines, the additional exposure offered to private sector is likely to increase impairment of receivables.

Impact of covid19 on Elements of Financial statement and key determinant of Financial Performance

Cont.....

Current Liabilities and Borrowing

A large portion of STO's current liability is exposure to oil suppliers and financing facilities taken to refinance the oil supplier payments. The drastic reduction of the oil price of approximately 38% since the beginning of the year has reduced the current liabilities by 7%.

STO witnessed a reduction in collection during the lockdown period due to temporary closure of business outlets and the sharp decrease in oil prices. To cushion this impact on finances, the company has borrowed approximately MVR 170m as a temporary short-term working capital facility.

In addition to this STO has also borrowed USD 15m from ITFC to facilitate the import of medical & essentials, without adding more burden on government cashflow. The working capital facility of MVR 170 million and USD 15 million have increased the short term borrowing of the company.

STO has also renewed its oil trading credit line with ITFC & Fuel supplier to ensure the fuel security of the country and maintain uninterrupted supply to utility companies and end customers. Currently the fuel import related credit lines are highly underutilized, at lower than 40% compared to maximum usable limit. Availability of credit lines ensure that STO has the capacity to meet fuel demand within the country.

In addition to this STO is also planning to arrange some additional import lines under a long-term financing arrangement, to be prepared for any future requirements.

Non-Current Liability and Investments

STO planned two major investment for the year, purchase of an oil tanker and establishment of a shipping line. The shipping line is currently in operation and the results of this operation is better than expected and is likely to be self-sustainable before the end of the year.

Impact of covid19 on Elements of Financial statement and key determinant of Financial Performance Cont.....

STO has delayed the purchase of the oil tanker mainly due to travel restrictions resulting from Covid-19. However, the company is working to complete the purchase before the end of the year. The purchase of oil tanker is expected to add more value to the company and economy by increasing long term borrowings. The increase in borrowings will partly be offset by the decrease in liabilities due to repayment of loans. STO has not sought any delay in repayment of bank borrowings as cashflows are sufficient to carry out the normal operations.

Operational Risk

Following the outbreak of COVID-19, the risk to the operating environment has been significantly increased due to unprecedented challenges. STO has formulated a business continuity plan and revisits the plan frequently to accommodate required changes, according to the changes in macro environment. Despite the steps taken by the company to safeguard employees, likelihood of a significant percentage of frontline workers having to stay away from the normal business operations is very high.

This might result in frequent closure of some of the business outlets and lost revenue. However, the company has taken significant steps to avoid closure of operation for an extended periods, hence the risk of such occurrence is expected to be low.

The company has made significant investment to facilitate work from home. This has improved both efficiency and prevented possible business disruptions. Therefore, the risk of Covid-19 affecting the continuity of business operations has been significantly reduced.

Short to medium term demand for products compared to average of last year

	Demand	
Segment	Short term	Medium term
Fuel	Decrease	Marginal decrease
Medical	Increase	Maintained at same level of last year
Staple foods	Increase	Marginal increase
Construction materials	Decrease	Marginal decrease
Home improvement	Decrease	Marginal decrease
Supermart	Decrease	Maintained at same level of last year

Impact of covid19 on Elements of Financial statement and key determinant of Financial Performance

Risk of Currency devaluation

STO holds more than 70% of liability in US Dollars whereas only 30% of collection is denominated in US Dollars. Therefore, STO is likely to suffer a significant impact where there is any currency devaluation.

Government Payments

As highlighted earlier, 65% of STO's receivable is exposed to government, directly or indirectly. The Covid-19 pandemic is expected to create unprecedented decrease in cash collection from government owned entities, resulting a shortfall in collection compared to average monthly trade with government entities.

This also increases the risk of company having to resort for borrowings on behalf of government to bring essential supplies. Such borrowings may restrict the investment capacity of the company.

Overall Assessment

Since STO is in the business of essential products, the impact of COVID-19 on the overall economy is unlikely to be reflected on STO's business to the same magnitude. Demand for essential products are likely to go down only to manageable levels.

However, increased credit risk stemming from economic environment and the strain on reserves affecting foreign exchange poses a significant threat to both profitability and smooth operations of the business.

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