



**THAI AGRO ENERGY PUBLIC COMPANY LIMITED**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE OPERATING RESULTS OF**

**YEAR 2014**

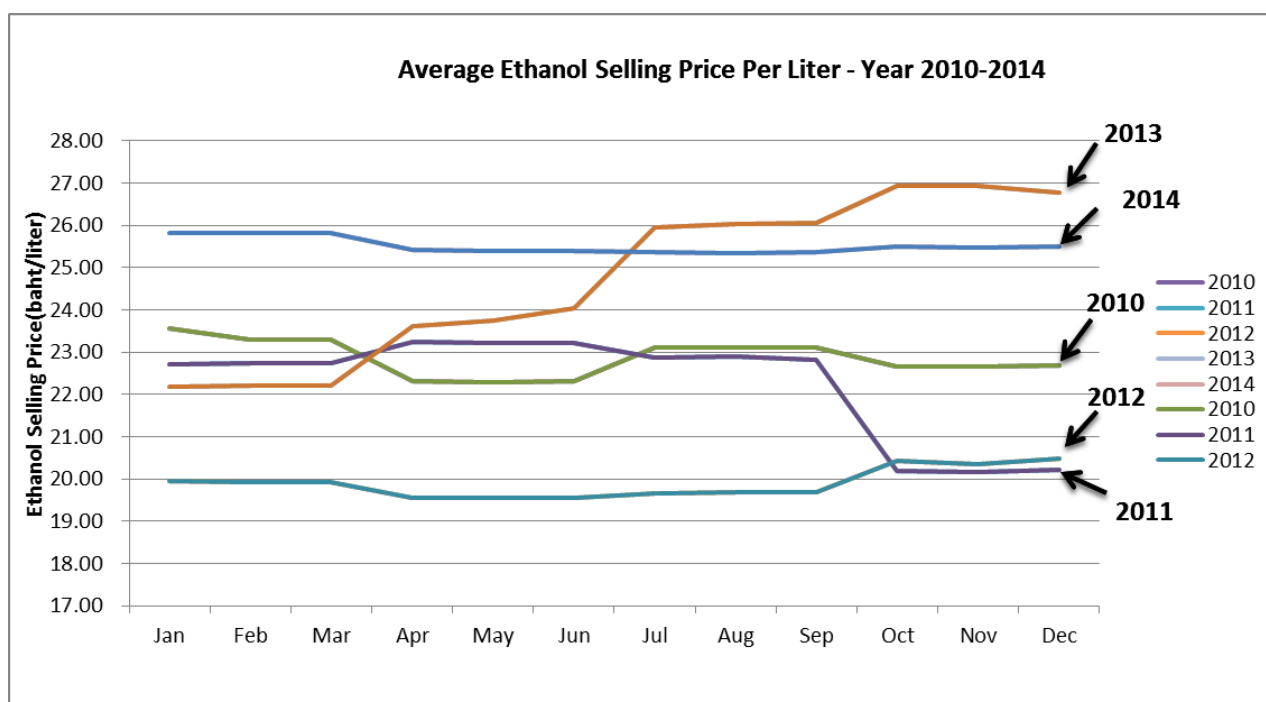
# THAI AGRO ENERGY PUBLIC COMPANY LIMITED

## MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the Year 2014)

### OVERALL OPERATING RESULTS

The Company's revenue of the year 2014 was Baht 2,500.43 million, which increased from the period year by 50.65 percent. Meanwhile, net profit in year 2014 was Baht 219.31 million, which increased from the period year by 86.36 percent. This was due to an increase in ethanol sales volume and the price in accordance with a continuous increase in the domestic ethanol demand due to the termination of Gasoline 91 and promotion of the production of automobiles that use Gasohol E20 as well as E85 by the government. As a result, the revenue and net profit from ethanol business thus increased significantly.



The ethanol sales volume in year 2014 increased from the period year by 45.86 percent, and the average ethanol selling price in year 2014 increased from the period year by 3.61 percent. Also, the average domestic demand of ethanol increased from 2.60 million liters per day in late 2013 to 3.24 million liters per day in 2014, increased from the period year by 24.62 percent. This was due to since the termination of Gasoline 91 and promotion of the production of automobiles that use Gasohol E20 as well as E85 by the government. Therefore, the demand for using ethanol as a mixture in gasohol has been increasing continuously.

## OPERATING RESULTS ANALYSIS

Revenue	Year 2014		Year 2013		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Revenue from Ethanol Business	2,496.28	99.83	1,659.05	99.96	837.23	50.46
Other Revenue	4.15	0.17	0.70	0.04	3.45	495.86
<b>Total Revenue</b>	<b>2,500.43</b>	<b>100.00</b>	<b>1,659.75</b>	<b>100.00</b>	<b>840.68</b>	<b>50.65</b>

**REVENUE:** The Company's total revenue in year 2014 was Baht 2,500.43 million, which increased from the previous year by Baht 840.68 million or 50.65 percent. This was due to the revenue from ethanol sales was Baht 2,496.28 million or 99.83 percent of total revenue, increased from the period year Baht 837.23 million or 50.46 percent, this was due to the ethanol sales volume was increased as mentioned above. The other revenue was Baht 4.15 million or 0.17 percent of total revenue, increased from the period year by Baht 3.45 million or 492.86 percent.

Expenses	Year 2014		Year 2013		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	% Sale
Cost of sale	2,165.52	86.75	1,390.60	83.82	774.92	55.73
Selling and administrative expense	58.34	2.34	85.84	5.17	(27.50)	(32.04)
Financial cost	57.26	2.29	65.63	3.96	(8.37)	(12.75)
<b>Total Expenses</b>	<b>2,281.12</b>	<b>91.38</b>	<b>1,542.07</b>	<b>92.95</b>	<b>739.05</b>	<b>47.93</b>

**EXPENSES:** The Company's expenses in year 2014 totaled Baht 2,281.12 million, which increased from the previous year Baht 739.05 million or 47.93 percent, due to the following reasons;

(1) Cost of ethanol sales in year 2014 increased from the previous year by Baht 774.92 million or 55.73 percent. This was due to increases in ethanol sales volume and cost of sales of 45.86 and 55.73 percent thanks to an increase in molasses (raw material) price, which is a major cost, from the period year by 7.46 percent.

(2) Selling and administrative expenses in year 2014 decrease from the previous year by Baht 27.50 million or 32.04 percent due to the cost of ethanol production line no.1, which had a temporary shutdown for repairs and maintenance in year 2013 but resumed its normal operation in year 2014.

(3) Financial expenses in year 2014 decrease from the previous year by Baht 8.37 million or 12.75 percent. This was due to there were short term and long term loan repayment, resulting in a decrease in interest expense.

(4) Profit from ethanol business in year 2014 for production line No.2, there was no corporate income tax on the earnings from the ethanol business, having received the Board of Investment Promotion, B.E. 2520. But corporate income tax for production line No.1 increased Baht 12.99 million since the investment promotion has expired already.

Gross Profit	Year 2014		Year 2013	
	Baht Million	%	Baht Million	%
Revenue from sales	2,496.28	100.00	1,659.05	100.00
Less cost of sales	2,165.52	86.75	1,390.60	83.82
<b>Gross Profit</b>	<b>330.76</b>	<b>13.25</b>	<b>268.45</b>	<b>16.18</b>

**GROSS PROFIT:** The Company's gross profit in year 2014 was Baht 330.76 million or 13.25 percent of the sales revenue, which slightly decreased from the previous year with the gross profit of Baht 268.45 million or 16.18 percent. This was due to an increase in the price of raw material, molasses which is considered a major cost as described above.

Net Profit	Year 2014		Year 2013		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Net Profit	215.16	98.11	116.98	99.41	98.18	83.93
Other revenue	4.15	1.89	0.70	0.59	3.45	492.86
<b>Total</b>	<b>219.31</b>	<b>100.00</b>	<b>117.68</b>	<b>100.00</b>	<b>101.63</b>	<b>86.36</b>
Net Earnings per Share –Baht per Share	0.24		0.15		0.09	60.00
<b>Remark:</b> Registered per value of Baht 1 per share						

**NET PROFIT:** The Company's net profit in year 2014 was Baht 219.31 million or Net Earnings of Baht 0.24 per share. When compared with the previous year, the Net profit increased by 86.36 percent due to the increase in the average ethanol cost of sales as described above.

#### **EBITDA AND EBITDA MARGIN**

(1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) is Baht 391.23 million, an increase from the previous year by 39.88 percent due to the increase in profit.

(2) The Company's EBITDA MARGIN is at 15.65 percent of the total revenues, decreasing from the previous year of 7.15 percent due to the increase in revenue.

#### **EARNINGS EFFICIENCY**

(1)The Company's NET PROFIT MARGIN in year 2014 was at 8.77 percent, which increased of 23.70 percent, as compared with the previous year with the net profit margin of 7.09 percent.

(2)The Company's RETURN ON EQUITY in year 2014 was at 16.18 percent, an increase of 50.51 percent, as compared with the previous year with the return on equity of 10.75 percent.

(3)The Company's RETURN ON TOTAL ASSETS in year 2014 was at 6.99 percent, increased of 57.79 percent. When compared with the previous year with the return on total assets and return on fixed assets of 4.43 percent. The asset turnover ratio was at 0.80 times, which increased from the same period last year by 26.98 percent.

#### STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at December 31, 2014	As at December 31, 2013	Million Baht	%
Total Assets	3,385.00	2,888.05	496.95	17.21
Total Liabilities	1,775.83	1,786.99	(11.16)	(0.62)
Total Shareholder's Equity	1,609.17	1,101.06	508.11	46.15
<b>Book Value-Baht per Share</b>	<b>1.76</b>	<b>1.37</b>	<b>0.39</b>	<b>28.47</b>
<b>Remark: Registered per value of Baht 1 per share</b>				

**ASSETS:** The Company's total assets as at December 31, 2014 increased from the end of 2013 by Baht 496.95 million or an increase of 17.21 percent, consisting of:

(1) Current assets increased from the end of 2013 by Baht 339.64 million or an increase of 51.70 percent, due to (A) cash and cash equivalent increased from the end of 2013 by Baht 10.27 million or 85.65 percent; (B) trade accounts receivable and other receivables increased from the end of 2013 by Baht 18.19 million or an increase of 10.29 percent; (C) inventories increased from the end of 2013 by Baht 29.32 million or an increase of 34.84 percent, most of which were molasses, purchased or reserved for the year 2015, and (D) advances payment for purchase goods decreased by Baht 262.35 million or an increase of 71.51 percent, and (E) other current assets decreased by Baht 19.08 million or a decrease of 111.25 percent.

(2) Non-current assets increased from the end of 2013 by Baht 157.31 million or an increase of 7.05 percent, due to an increase in land, plant, and equipment.

**LIABILITIES:** The Company's total liabilities as at December 31, 2014 decreased from the end of 2013 by Baht 11.16 million or a decrease of 0.62 percent, consisting of: (A) Trade accounts payable and other accounts payable decreased from the end of 2013 by Baht 53.28 million or an increase of 28.45 percent, most of which were molasses expenses. (B) Short term and long term loans increased by Baht 38.46 million or a decrease of 2.43 percent, due to Short-term loans. (C) Other liabilities increased by Baht 3.67 million or an increase of 21.25 percent, most of which are provision for allowance for long-term benefits of employees and interest expense.

**TOTAL SHAREHOLDERS' EQUITY:** The Company's total shareholders' equity of the Company as at December 31, 2014 increased from the end of 2013 by Baht 508.11 million or an increase of 46.15 percent, resulting in an increase of the share's book value from Baht 1.37 per share to Baht 1.76 per share. This was due to the increase in net profit of Baht 101.63 million.

Cash Flows	Unit: Million Baht	
	Year 2014	Year 2013
Cash Flows from (used in) Operating Activities	69.61	(221.45)
Cash Flows from (used in) Investing Activities	(306.55)	(92.42)
Cash Flows from (used in) Financing Activities	247.21	320.21
Net Increase (Decrease) in Cash	10.27	6.34
Cash at the Beginning of the Period	11.99	5.65
<b>Cash at the End of the Period</b>	<b>22.26</b>	<b>11.99</b>

## CASH FLOWS

(1) The Company's net cash used in operating activities in year 2014 was at Baht 69.61 million, consisting of: (A) income before corporate income tax and interest payment of Baht 228.26 million; (B) transactions that did not affect the cash such as the depreciation; (C) an increase in operating assets of Baht 324.10 million due to an increase in trade receivable and advance payments for purchase of goods; (D) increase in operating liabilities of Baht 62.58 million due to a decrease in trade accounts payable and other accounts payable, and (E) an increase in interest expense by Baht 59.79 million.

(2) The Company's net cash used in investment activities in year 2014 was Baht 306.55 million, consisting of: (A) an increase in land, plant and equipment of Baht 316.39 million.

(3) The Company's net cash used in financing activities in year 2014 was Baht 247.21 million, including (A) a net increase in loan of Baht 218.46 million, (B) the issuance of common shares of Baht 388.80 million, (C) loan repayment of Baht 180 million and (D) dividend payment of Baht 180.00 million.

## ASSET MANAGEMENT CAPABILITY

(1) The Company's trade accounts receivable and other accounts receivable as at end of 2014 were 5.76 percent of total asset. These receivable accounts are not fully due yet amounts of Baht 184.00 million. The provision of doubtful debts are considered based on a review of receivable period and assessment of past debt collection experience. Accordingly, the Company has not experienced in bad debt and has not found any unusual transaction in the period of year 2014 and therefore, there was no provision for doubtful debt in the period of year 2014.

(2) Inventory as at end of 2014 was 3.35 percent of total asset without deterioration of the assets and impact from the lower market price. Therefore, there was no allowance for impairment loss of inventory in period of year 2014.

## **LIQUIDITY AND SUFFICIENCY OF CAPITAL**

(1) The Company's current ratio and quick ratio in period of year 2014 were at 0.77 times and 0.17 times, respectively. Even though, the current ratio was lower than normal, the Company still has adequate credit line for working capital in the future.

(2) The Company's cash cycle in the period of year 2014 was at 15.06 days, a decrease from the end of 2013 by 1.30 days. This was due to the average debt collection period decreased from 29.68 days in the end of 2013 to 26.81 days in period of year 2014. The Company's average holding period decreased from 3.76 days in the end of 2013 to 2.56 days. Moreover, the average payment period decreased from 17.08 days in the end of 2013 to 14.32 days.

(3) As for investment in 2014, the construction of the fourth bio-gas production pond is completed in the 2<sup>nd</sup> quarter 2014. The bio-gas produced will be used as fuel in ethanol production and in the planned 3-megawatt bio-gas power generating system, with investment of about Baht 190 million. The completion and commencement of 1<sup>st</sup> phase with 1-megawatt power generation are scheduled within the 3<sup>rd</sup> quarter of 2014 and the 2<sup>nd</sup> phase of 2-megawatt on October 2014. The electricity can be used within the ethanol production plant which shall reduce cost of ethanol production. Regarding the constructions of two molasses tank with total capacity of 20,000 tons, having investment budget of about Baht 60 million, is completed in the 2<sup>nd</sup> quarter 2014, increasing the volume of molasses storage from 40,000 tons to 60,000 tons, allowing flexibility in receiving and storing molasses used as the main raw material for ethanol production. This will help with the cost management making the ethanol production cost lower and more effective. The source of investment fund for these projects comes from its own cash generation and the increase in capital from the Initial Public Offering (IPO) as described above.

## **DEBT OBLIGATION**

The company has obligation according to the terms and conditions of the loan agreement with a local commercial bank as follows.

(1) The company must maintain its debt to equity ratio (D/E ratio) not to exceed 2 times and debt service coverage ratio (DSCR) of no less than 1.10 times in 2014 and no less than 1.25 time in next years until the end of loan agreement, the company was able to maintain the D/E ratio and DSCR as required by the contractual obligation of the loan.

(2) The lending bank has determined that Lanna Resources Public Co., Ltd. (Lanna) must maintain its shareholding proportion in TAE of no less than 50 percent of the total number of shares during the whole duration of the loan agreement. Accordingly, Lanna has no plan to decrease its shareholding proportion in TAE to below 50 percent of the total number of shares.

(3) A written approval from the lender bank is required before the company can accrue more debts. Currently, the company has adequate credit line for its working capital for business operation. Additionally, the company has obtained approval from the Office of the Securities and Exchange Commission for trading in public of common shares and the Stock Exchange of Thailand obtained the common shares as registered securities and the trading would begin from June 5, 2014, which will help the company in acquiring additional sources of capital in the future, making the capital structure of the company more appropriate.

(4) The lending bank has stipulated that the company cannot pay dividend to its shareholders, including Lanna, if the company cannot comply with the conditions as stipulated within the loan agreement, such as the maintaining of D/E ratio, DSCR, and maintaining of shareholding proportion of Lanna in the company, etc. Accordingly, the company has never breached the conditions of loan agreements and has been provided with good financial support from lending banks.

### **IMPACT TO FUTURE OPERATIONS**

It is expects that the ethanol selling price for 2015 should be higher than in the past year 2014. However, the price of raw material, molasses has continued to increase also. Nonetheless, the Company can still be profitable for 2014, by putting emphasis on the cost and expense reduction strategy. Accordingly, the Company will try to manage and solve any occurred problem carefully in order the performance would be in good standard and could pay dividend as the policy continuously.

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