



## **THAI AGRO ENERGY PUBLIC COMPANY LIMITED**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE OPERATING RESULTS OF**

**THE 3<sup>rd</sup> QUARTER OF 2016**

# THAI AGRO ENERGY PUBLIC COMPANY LIMITED

## MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 3<sup>rd</sup> Quarter of 2016 and the First 9-Months of 2016)

### OVERALL OPERATING RESULTS

The Company's revenue in the 3<sup>rd</sup> quarter 2016 and that of the first 9-month period of 2016 were Baht 586.22 million and Baht 1,918.24 million, a decrease from the same period last year by 8.27 percent and 4.21 percent respectively.

The net profit of the 3<sup>rd</sup> quarter of 2016 was Baht 40.64 million, an increase from the same period of last year by 3.41 percent, due to the raw material prices decreased from the previous year, while the first 9-month of 2016 the net profit at 168.50 million, a decrease from the same period of last year by 21.72 percent. This was due to the prevailing low crude oil and fuel oil prices which suppressed the selling price of ethanol.

The average ethanol selling price in the 3<sup>rd</sup> quarter of 2016 and the first 9-month period of 2016 were decreased from the same period last year by 8.88 and 10.86 percent respectively. However, ethanol sales volume in the 3<sup>rd</sup> quarter of 2016 increased by 0.57 and 7.40 percent respectively as compared to the same period in 2015 due to the increasing consumption of fuel oil when oil prices were low.

### OPERATING RESULTS ANALYSIS

#### REVENUE

Revenue	Year 2016		Year 2015		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
<b>3<sup>rd</sup> quarter (July – September)</b>						
Sales Revenue	585.15	99.82	638.67	99.93	(53.52)	(8.38)
Other Revenue	1.07	0.18	0.42	0.07	0.65	154.76
<b>Total Revenue</b>	<b>586.22</b>	<b>100.00</b>	<b>639.09</b>	<b>100.00</b>	<b>(52.87)</b>	<b>(8.27)</b>
<b>9-Month Period (January – September)</b>						
Sales Revenue	1,916.01	99.88	2,001.12	99.93	(85.11)	(4.25)
Other Revenue	2.23	0.12	1.49	0.07	0.74	49.66
<b>Total Revenue</b>	<b>1,918.24</b>	<b>100.00</b>	<b>2,002.61</b>	<b>100.00</b>	<b>(84.37)</b>	<b>(4.21)</b>

- (1) The Company's total revenue in the 3<sup>rd</sup> quarter of 2016 totaled Baht 586.22 million, which decreased from the same period last year by Baht 52.87 million or 8.27 percent, due to the following reasons.
- The revenue from ethanol sales was Baht 585.15 million or 99.82 percent of total revenue, decreased from the same period last year by Baht 53.52 million or 8.38 percent due to the decreased in ethanol selling price as explained above.
  - The other revenue was Baht 1.07 million or 0.18 percent of total revenue, increased from the same period of last year by Baht 0.65 million or 154.76 percent. This was due to the income from the sales of Fusel Oil.

(2) The company's revenue in the first 9-month period of 2016 totaled Baht 1,918.24 million, decreased from the same period of last year by Baht 84.37 million or 4.21 percent, due to the following reasons.

- The revenue from ethanol sales totaled Baht 1,916.01 million or 99.88 percent of total revenue, decreased from the same period of last year Baht 85.11 million or 4.25 percent, resulted from the decrease of ethanol selling price as explained above.
- The other revenue was Baht 2.23 million or 0.12 percent of total revenue, increased from the same period of last year by Baht 0.74 million or 49.66 percent, resulted from the income from the sales of Fusel Oil.

## EXPENSES

Expenses	Year 2016		Year 2015		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	%
<b>3<sup>rd</sup> quarter (July – September)</b>						
Cost of sale	524.45	89.63	575.62	90.13	(51.17)	(8.89)
Selling and administrative expense	11.59	1.98	11.89	1.86	(0.30)	(2.52)
Financial cost	8.25	1.41	10.59	1.66	(2.34)	(22.10)
Income tax expense	1.29	0.22	1.69	0.26	(0.40)	(23.67)
<b>Total Expenses</b>	<b>545.58</b>	<b>93.24</b>	<b>599.79</b>	<b>93.91</b>	<b>(54.21)</b>	<b>(9.04)</b>
<b>9-Month Period (January – September)</b>						
Cost of sale	1,664.83	86.89	1,697.15	84.81	(32.32)	(1.90)
Selling and administrative expense	42.46	2.22	36.47	1.82	5.99	16.42
Financial cost	29.08	1.52	38.92	1.94	(9.84)	(25.28)
Income tax expense	13.37	0.70	14.83	0.74	(1.46)	(9.84)
<b>Total Expenses</b>	<b>1,749.74</b>	<b>91.32</b>	<b>1,787.37</b>	<b>89.32</b>	<b>(37.63)</b>	<b>(2.11)</b>

(1) The Company's expenses in the 3<sup>rd</sup> quarter of 2016 totaled Baht 545.58 million, decreased from the same period of last year by Baht 54.21 million or 9.04 percent, due to the following reasons.

- Cost of sales decreased from the same period of last year by Baht 51.17 million or 8.89 percent. This was due to raw material prices decreased over last year.
- Selling and administrative expenses decreased from the same period of last year by Baht 0.30 million or 2.52 percent. This was due to the decrease of transportation cost.
- Financial expenses in the 3<sup>rd</sup> of quarter 2016 decreased from the same period last year by Baht 2.34 million or 22.10 percent. This was due to short term and long term loan repayment, resulting in a decrease in interest expense.
- Earning from ethanol sale from production line No.1 is taxable since the Board of Investment Promotion has expired. Tax payable in the 3<sup>rd</sup> of quarter 2016 decreased by Baht 0.40 million or 23.67 percent from the same period last year.

(2) The Company's expenses in the first 9-month period of 2016 totaled Baht 1,749.74 million, which decreased from the same period last year by Baht 37.63 million or 2.11 percent, due to the following reasons.

- Cost of ethanol sales decreased from the same period of last year by Baht 32.32 million or 1.90 percent. This was due to the decrease in raw material consumption.
- Selling and administrative expenses increased from the same period of last year by Baht 5.99 million or 16.42 percent. This was due to the increase in cost of transportation and administration expenses.
- Financial expenses decreased from the same period of last year by Baht 9.84 million or 25.28 percent. This was due to the repayment of short term and long term loan, resulting in the decrease in interest expense.
- Earning from ethanol sale from production line No.1 is taxable since the Board of Investment Promotion has expired. Tax payable in the first 9-month of 2016 decreased by Baht 1.46 million or 9.84 percent from the same period last year.

#### GROSS PROFIT

Gross profit	Year 2016		Year 2015	
	Baht Million	%	Baht Million	%
<b><u>3<sup>rd</sup> quarter (July – September)</u></b>				
Revenues from sales	585.15	100.00	638.67	100.00
Less cost of sales	524.45	89.63	575.62	90.13
<b>Gross Profit</b>	<b>60.70</b>	<b>10.37</b>	<b>63.05</b>	<b>9.87</b>
<b><u>9-Month Period (January – September)</u></b>				
Revenues from sales	1,916.01	100.00	2,001.12	100.00
Less cost of sales	1,664.83	86.89	1,697.15	84.81
<b>Gross Profit</b>	<b>251.18</b>	<b>13.11</b>	<b>303.97</b>	<b>15.19</b>

- (1) The Company's gross profit in the 3<sup>rd</sup> quarter of 2016 was Baht 60.70 million, or 10.37 percent of the sales revenue as compared to the gross profit of the same period last year at Baht 63.05 million or 9.87 percent of the sales revenue. The gross profit increased due to the decrease in ethanol cost of sales as described above.
- (2) The Company's gross profit in the first 9-month period of 2016 was Baht 251.18 million, or 13.11 percent of the sales revenue as compared to the gross profit of the same period last year at 303.97 million or 15.19 percent of the sales revenue. The gross profit and profit margin decreased due to the decrease in ethanol selling prices as described above.

## EBITDA AND EBITDA MARGIN

EBITDA & EBITDA MARGIN (Unit : Baht Million)	Year 2016	Year 2015	Increase (Decrease)	%
<b>3<sup>rd</sup> quarter (July – September)</b>				
EBITDA	81.87	83.08	(1.21)	(1.46)
EBITDA MARGIN	13.97	13.00	0.97	7.43
<b>9-Month Period (January – September)</b>				
EBITDA	303.52	358.89	(55.37)	(15.43)
EBITDA MARGIN	15.82	17.92	(2.10)	(11.71)

- (1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the 3<sup>rd</sup> quarter 2016 was at Baht 81.87million. When compared with the same period of last year, decreased by 1.46 percent, due to the reasons mentioned above. The Company's EBITDA MARGIN in the 3<sup>rd</sup> quarter 2016 was at 13.97 percent of the total revenues. When compared with the same period of last year, the EBITDA MARGIN was at 13.00 percent of the total revenues, increased by 7.43 percent.
- (2) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the first 9-month period of 2016 was Baht 303.52 million, When compared with the same period of last year, decreased by 15.43 percent, due to the reasons mentioned above. The Company's EBITDA MARGIN in first 9-month period of 2016 was at 15.82 percent of the total revenues. When compared with the same period of last year, was at 17.92 percent of the total revenues, decreased by 11.71 percent.

## NET PROFIT

Net Profit	Year 2016		Year 2015		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
<b>3<sup>rd</sup> quarter (July – September)</b>						
Net Profit	40.64	100.00	39.30	100.00	1.34	3.41
NET PROFIT PER SHARE (Baht)	0.04		0.04		-	-
NET PROFIT MARGIN	6.93		6.15		0.78	12.74
<b>9-Month Period (January – September)</b>						
Net Profit	168.50	100.00	215.24	100.00	(46.74)	(21.72)
NET PROFIT PER SHARE (Baht)	0.17		0.22		(0.05)	(22.73)
NET PROFIT MARGIN	8.78		10.75		(1.96)	(18.27)
<b>Remark:</b> Registered per value of Baht 1 per share						

- (1) The Company's net profit in the 3<sup>rd</sup> quarter of 2016 was Baht 40.64 million generating a net earnings at Baht 0.04 per share. When compared to the same period last year, the net profit increased by 3.41 percent, due to the decrease in expenses. The Company's net profit margin in 3<sup>rd</sup> quarter of 2016 was

6.93 percent of the sales revenue, an increase by 12.74 percent as compared to 6.15 percent in the same period last year.

- (2) The Company's net profit in the first 9-month period of 2016 was Baht 168.50 million or net earnings of Baht 0.17 per share. When compared with the same period of last year, the net profit decreased by 21.72 percent, due to the decrease in sale revenue. The Company's net profit margin in the first 9-month period of 2016 was 8.78 percent of the total revenues, a decrease by 18.27 percent as compared to 10.75 percent in the same period last year.

## STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht			
	As at June 30, 2016	As at December 31, 2015	Increase (Decrease)	%
Total Assets	2,798.58	3,241.28	(442.70)	(13.66)
Total Liabilities	1,076.53	1,537.73	(461.20)	(29.99)
Total Shareholder's Equity	1,722.05	1,703.55	18.50	1.09
<b>Book Value-Baht per Share</b>	<b>1.72</b>	<b>1.70</b>	<b>0.02</b>	<b>1.18</b>
<b>Remark: Registered per value of Baht 1 per share</b>				

## ASSETS

The Company's total assets as at September 30, 2016 decreased from the year end of 2015 by Baht 442.70 million or a decrease of 13.66 percent. Total assets consist of:

- (1) Current assets decreased from the year end of 2015 by Baht 455.35 million or a decrease of 48.03 percent, which consist of (A) cash and cash equivalent increased by Baht 14.48 million or an increase of 159.12 percent, (B) Current investments increased by Baht 0.17 million or 21.79 percent; (C) Trade accounts receivable and other receivables decreased by Baht 19.10 million or 9.47 percent; (D) Inventories increased by Baht 96.43 million or 70.07 percent, most of which were molasses procurement reserved for ethanol production in year 2016 (E) Advanced payments for purchases decreased from year end 2015 by Baht 529.12 million or 91.52 percent, and (F) Other Current Assets decreased by Baht 18.21 million or 88.23 percent, most of which were revenue tax payable.
- (2) Non-Current Assets increased from year end 2015 by Baht 12.65 million or 0.55 percent, consisting of: (A) land, plant, and equipment increased by Baht 13.45 million or 0.59 percent; (B) Other non-current assets decreased by Baht 0.80 million or 12.33 percent.

## LIABILITIES

The Company's total liabilities as at September 30, 2016 decreased from the year end of 2015 by Baht 461.20 million or a decrease of 29.99 percent, which consist of (1) Trade accounts payable and other accounts payable decreased by Baht 47.92 million or a decrease of 70.56 percent, most of which were

molasses expenses. (2) Short term and long term loans decreased by Baht 421.46 million or a decrease of 29.21 percent, due to loan repayment. (3) Other liabilities, most of which were operation costs and interest expenses, increased by Baht 8.18 million or an increase of 30.15 percent.

## TOTAL SHAREHOLDERS' EQUITY

The total shareholders' equity of the Company as at September 30, 2016 increased from the end of 2015 by Baht 18.50 million or an increase of 1.09 percent, the share's book value increased from Baht 1.70 per share to Baht 1.72 per share, due to the increase of company's net profit.

## CASH FLOWS

Cash Flows	First nine months period (Jan - September)	
	Unit: Million Baht	
	Year 2016	Year 2015
Cash Flows from (used in) Operating Activities	690.41	569.66
Cash Flows from (used in) Investing Activities	(102.49)	(27.22)
Cash Flows from (used in) Financing Activities	(573.44)	(546.83)
Net Increase (Decrease) in Cash	14.48	(4.39)
Cash at the Beginning of the Period	9.10	22.26
<b>Cash at the End of the Period</b>	<b>23.58</b>	<b>17.87</b>

- (1) The Company's net cash from operating activities in the first 9-month period of 2016 was at Baht 690.41 million which consisting of (A) income before corporate income tax of Baht 181.87 million; (B) Non cash items such as the depreciation amounted to Baht 122.19 million; (C) an decrease in operating assets of Baht 470.05 million due to an increase in trade and other receivables and inventories while advance payments for purchase of goods and current assets decreased; (D) an decrease in operating liabilities of Baht 42.11 million due to an increase in account and other payable, while provision for long-term employees benefits decreased; (E) Interest income at Baht 0.08 million baht; (F) interest expense at Baht 27.72 million, and (G) Corporate income tax at 13.95 million.
- (2) The Company's net cash used in investment activities in the first 9-month period of 2016 was Baht 102.49 million which consists of: (A) an increase in equipment at Baht 102.83 million, most of which were constructions of Hydrogen Sulfide Treatment Plant, Biogas burner system and Construction of Molasses Tanks; (B) Purchase of intangible assets in the amount of Baht 0.18 million, mainly computer programs, and (C) sales of assets amount to Baht 0.52 million.
- (3) The Company's net cash used in financing activities in the first 9-month period of 2016 was Baht 573.44 million which include (A) short-term loan repayment at Baht 331.46 million, (B) financial leases repayment at Baht 1.98 million, (C) long-term loan repayment at Baht 90.00 million and (D) dividend payment at Baht 150.00 million.

## **DEBT OBLIGATION**

The company has obligation 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 1.25 time throughout the duration of loan agreement. So far, the company has been able to maintain the D/E and DSCR ratio as required.
- (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. So far, Lanna has no policy to decrease its shareholding proportion in TAE to below 50 percent of the total number of shares.
- (3) A written approval from the lending bank is required before the company can accrue more debts. However, in December 2015, the company has signed an addendum to the loan agreement with the lending bank to waive such the condition;
- (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 stipulated in the loan agreement. such as maintaining of D/E and DSCR ratio, and maintaining shareholding proportion of Lanna in the company, etc. So far, the company has not breached the conditions of loan agreements and has been provided with good financial support from the lending banks.

## **IMPACT TO FUTURE OPERATIONS**

The Department of Energy Business (DOEB) is proposing the price gap increased between gasohol E20 and gasohol E10 to the Energy Policy Management committee via the oil fund mechanism which providing more incentives to increase gasohol E20 demand. This is the one of measures that promoting the use of ethanol to meet targets under the Alternative Energy Development Plan (AEDP). In addition, the equality of pricing between gasohol 95 and gasohol 91 by 2016 is the one mechanisms to phase out gasohol 91 in the domestic oil retailing market. Both of the above measures are beneficial to ethanol industry and TAE operation. Meanwhile, the crude oil situation still fluctuates and remains low which is an important factor that affects the ethanol price including TAE net profit. However, TAE has the policy to enhance the competitiveness by improving the production efficiency and decreasing the production cost continuously. Moreover, the potential alternative raw materials were studied in order to sustain the business growth and the dividend policy.