



THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE OPERATING RESULTS OF

YEAR 2016

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MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the Year 2016)

OVERALL OPERATING RESULTS

The Company's revenue of the year 2016 was Baht 2,418.35 million, decreased by 7.08 percent from the previous year while the net profit in year 2016 was Baht 178.10 million, decreased by 27.09 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 year 2016 decreased by 8.54 percent from the previous year. However the ethanol sales volume in year 2016 increased by 1.54 percent 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	%
Revenue from Ethanol Business	2,415.07	99.86	2,600.32	99.91	(185.25)	(7.12)
Other Revenue	3.28	0.14	2.25	0.09	1.03	45.78
Total Revenue	2,418.35	100.00	2,602.57	100.00	(184.22)	(7.08)

The Company's total revenue in year 2016 was Baht 2,418.35 million, decreased from the previous year by Baht 184.22 million or 7.08 percent, due to the following reasons.

- (1) The revenue from ethanol sales was Baht 2,415.07 million or 99.86 percent of total revenue, decreased by Baht 185.25 million or 7.12 percent from the same period last year due to the decrease in ethanol selling price as explained above.
- (2) The other revenue was Baht 3.28 million or 0.14 percent of total revenue, increased by Baht 1.03 million or 45.78 percent from the same period of last year. This was due to the income from the sales of Fusel Oil.

EXPENSES:

Expenses	Year 2016		Year 2015		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	% Sale
Cost of sale	2,111.84	87.44	2,244.29	86.31	(132.45)	(5.90)
Selling and administrative expense	77.68	3.22	48.23	1.85	29.45	61.06
Financial cost	37.79	1.56	50.06	1.93	(12.27)	(24.51)
Income tax expense	12.94	0.54	15.72	0.60	(2.78)	(17.68)
Total Expenses	2,240.25	92.76	2,358.30	90.69	(118.05)	(5.01)

The Company's expenses in year 2016 was Baht 2,240.25 million, decreased by Baht 118.05 million or 5.01 percent from the previous year, due to the following reasons;

- (1) Cost of ethanol sales in year 2016 decreased by Baht 132.45 million or 5.90 percent from the previous year. This was due to raw material prices decreased over last year.
- (2) Selling and administrative expenses in year 2016 increase by Baht 29.45 million or 61.06 percent from the previous year. This was due to an increase in cost of administration expenses, allowance for doubtful accounts advance payment on future purchases and Acceptance of transfer some of production cost due to the temporary shutdown of production lines No.1 between October to December 2016.
- (3) Financial expenses in year 2016 decreased by Baht 12.27 million or 24.51 percent from the previous year. This was due to short term and long term loan repayment, resulting in a decrease in interest expense.
- (4) Profit from ethanol business in year 2016 for production line No.2, was exempted from corporate income tax on the earnings from the ethanol business as an privilege received the Board of Investment Promotion, B.E. 2520. However corporate income tax for production line No.1 increased by Baht 2.78 million since the investment promotion has already expired.

GROSS PROFIT:

Gross Profit	Year 2016		Year 2015	
	Baht Million	%	Baht Million	%
Revenue from sales	2,415.07	100.00	2,600.32	100.00
Less cost of sales	2,111.84	87.44	2,244.29	86.31
Gross Profit	303.23	12.56	356.03	13.69

The Company's gross profit in year 2016 was Baht 303.23 million or 12.56 percent of the sales revenue, as compared with the gross profit of Baht 356.03 million or 13.69 percent of the sales revenue in the previous year. This was due to an decrease in cost of sales as described above.

EBITDA AND EBITDA MARGIN

EBITDA AND EBITDA MARGIN (Baht Million)	Year 2016	Year 2015	Increase (Decrease)	%
EBITDA	353.62	431.30	(77.68)	(18.01)
EBITDA MARGIN	14.62	16.57	(1.95)	-

The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in year 2016 was Baht 353.62 million, a decrease from the previous year by 18.01 percent. The Company's EBITDA MARGIN in year 2016 was 14.62 percent of the total revenues, a decreased by 1.95 percent from the previous year.

NET PROFIT:

NET PROFIT & NET PROFIT MARGIN (Baht Million)	Year 2016	Year 2015	Increase (Decrease)	%
NET PROFIT	178.10	244.27	(66.17)	(27.09)
NET PROFIT PER SHARE (BAHT)	0.18	0.24	(0.06)	(25.00)
NET PROFIT MARGIN	7.36	9.39	(2.02)	-

The Company's net profit in year 2016 was Baht 178.10 million or net earnings of Baht 0.18 per share. When compared with the same period of last year, the net profit decreased by 27.09 percent due to the decrease in sale revenue. The Company's net profit margin in year 2016 was 7.36 percent of the total revenues, a decrease by 2.02 percent as compared with 9.39 percent of the same period last year.

STATEMENT OF FINANCIAL POSITION :

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at December 31, 2016	As at December 31, 2015	Million Baht	%
Total Assets	3,225.18	3,241.28	(16.10)	(0.50)
Total Liabilities	1,493.53	1,537.73	(44.20)	(2.87)
Total Shareholder's Equity	1,731.65	1,703.55	28.10	1.65
Book Value-Baht per Share	1.73	1.70	0.03	1.76
Remark: Registered per value of Baht 1 per share				

ASSETS: The Company's total assets as at December 31, 2016 decreased from the end of 2015 by Baht 16.10 million or a decrease of 0.50 percent. The total assets consisting of:

(1) Current assets decreased from the end of 2015 by Baht 42.71 million or a decrease of 4.51 percent, due to (A) cash and cash equivalent increased from the year end 2015 by Baht 27.95 million or 307.14 percent; (B) Current investments increased by Baht 0.18 million or a increase of 23.08 percent. (C) trade accounts receivable and other receivables decreased from the year end 2015 by Baht 36.16 million or an decrease of 17.93 percent; (D) inventories decreased from the end of 2015 by Baht 11.50 million or an decrease of 8.36 percent, most of which were molasses, (E) advances payment for purchase goods decreased by Baht 34.53 million or a decrease of 5.97 percent, and (F) other current assets increased by Baht 11.35 million or an increase of 54.99 percent, most of which came from tax receivables.

(2) Non-current assets increased from the year end 2016 by Baht 26.61 million or an increase of 1.16 percent, due to (A) land plant, and equipment increased from the year end 2015 by 27.57 million or 1.21 percent, (B) Other non-current assets decreased by Baht 0.96 million or a decrease of 14.79 percent.

LIABILITIES: The Company's total liabilities as at December 31, 2016 decreased from the year end 2015 by Baht 44.20 million or a decrease of 2.87 percent, consisting of: (A) Trade accounts payable and other accounts payable increased from the year end 2015 by Baht 114.42 million or an increase of 168.49 percent, most of which were molasses cost. (B) Short term and long term loans decreased by Baht 158.30 million or a decrease of 10.97 percent, due to loan repayment, and (C) Other liabilities decreased by Baht 0.32 million or 1.18 percent, most of which were finance lease, provision for employee benefits and tax.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at December 31,2016 increased from the year end 2015 by Baht 28.10 million 1.65 percent, the share's book value increased from Baht 1.70 per share to Baht 1.73 per share, due to the increase of company net profit.

CASH FLOWS

Cash Flows	Unit: Million Baht	
	Year 2016	Year 2015
Cash Flows from (used in) Operating Activities	460.74	356.20
Cash Flows from (used in) Investing Activities	(121.76)	(39.37)
Cash Flows from (used in) Financing Activities	(311.03)	(329.99)
Net Increase (Decrease) in Cash	27.95	(13.16)
Cash at the Beginning of the Period	9.10	22.26
Cash at the End of the Period	37.05	9.10

(1) The Company's net cash used in operating activities in year 2016 was Baht 460.74 million, consisting of: (A) income before corporate income tax at Baht 191.04 million; (B) depreciation at Baht 170.95 million; (C) a decrease in operating assets of Baht 63.99 million due to an increase in trade receivable and advance payments for purchase of goods and an increase in other current assets ; (D) increase in operating liabilities at Baht 84.65 million due to an increase in account and other payable, while provision for long-term employees benefits and other current liabilities decreased; (E) Interest income at Baht 0.15 million baht; (F) interest expense at Baht 36.10 million, and (G) Corporate income tax at 13.94 million.

(2) The Company's net cash used in investment activities in year 2016 was Baht 121.76 million which consists of: (A) an increase in equipment at Baht 122.10 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 year 2016 was Baht 311.03 million which included (A) short-term loan at Baht 21.70 million, (B) financial leases repayment at Baht 2.73 million, (C) long-term loan repayment at Baht 180.00 million and (D) dividend payment at Baht 150.00 million.

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 1.25 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) 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

The Department of Energy Business (DOEB) is currently reviewing the National Oil Plan 2015 which focuses on phasing out of gasohol 91 in the domestic oil retailing market from January 2018. The review is to be concluded within the first quarter of 2017. If the plan for phasing out of gasohol 91 is still unclear, the department will not consider to narrow the retail price gap between gasohol E20 and other gasoline products. Moreover, the expected growth of domestic oil demand in 2017 is 5%, a decrease from the previous year of 7% due to an increase of the world's oil price. The two factors will affect the ethanol volume and the price for the company in the year 2017.

Meanwhile, the world's crude oil price is still volatility at the average of 50-60 USD per barrel, an increase from previous year average of 41 USD per barrel due to the expansion of global economic and OPEC and non-OPEC reduce the crude oil production. This is an important factor that benefits the ethanol price and company profit. However, the company has the policy to enhance the competitiveness by improving the efficiency of production and decreasing the production cost continuously in order to sustain the business growth and the dividend policy.
