



THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FINANCIAL STATEMENTS OF

THE 1st QUARTER 2017

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MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 1st Quarter 2017)

OVERALL OPERATING RESULTS

The Company's revenue in the 1st quarter 2017 was Baht 750.20 million, which increased from the same period last year by 15.37 percent. The net profit in the 1st quarter 2017 was Baht 71.83 million, decreased from the same period last year by 19.11 percent. This is due to the molasses price increased around 16.73% which resulted from severe drought situation in 2016. Although global oil prices remained at low levels will affect the price of ethanol, but average selling price of the first quarter increased from the same period 8.62% mainly due to the rising cost of molasses. While the sales volume of ethanol increased from the same period last year 6.22% since fuel prices are still at the low level, resulting the high demand of consumption.

OPERATING RESULTS ANALYSIS

REVENUE:

Revenue	1 st quarter 2017		1 st quarter 2016		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Revenue from Ethanol sale	749.86	99.95	650.21	99.99	99.65	15.33
Other Revenue	0.34	0.05	0.05	0.01	0.29	N/A
Total Revenue	750.20	100.00	650.26	100.00	99.94	15.37

The Company's total revenue in the 1st quarter 2017 was Baht 750.20 million, an increase from the same period last year by Baht 99.94 million or 15.37 percent. Reasons being:

- (1) The revenue from ethanol sales was Baht 749.86 million or 99.95 percent of total revenue, an increase from the same period last year by Baht 99.65 million or 15.33 percent, this was due to the ethanol sales volume and ethanol selling price were increased as mentioned above.
- (2) The other revenue was Baht 0.34 million or 0.05 percent of total revenue, increased from the same period last year by Baht 0.29 million. This was due to foreign exchange gain.

EXPENSES:

Expenses	1 st quarter 2017		1 st quarter 2016		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	% Sale
Cost of sale	648.10	86.43	527.25	81.09	120.85	22.92
Selling and administrative expense	13.77	1.84	13.67	2.10	0.10	0.73
Financial cost	9.56	1.27	10.85	1.67	(1.29)	(11.89)
Income tax expense	6.94	0.93	9.69	1.49	(2.75)	(28.38)
Total Expenses	678.37	90.47	561.46	86.35	116.91	20.82

The Company's expenses in the 1st quarter 2017 amounted to Baht 678.37 million, an increase from the same period last year by Baht 116.91 million or 20.82 percent, Reasons being:

- (1) Cost of ethanol sales in the 1st quarter 2017 increased from the same previous last year by Baht 120.85 million or 22.92 percent. This was due to the ethanol sales volume and ethanol selling price were increased from the last year.
- (2) Selling and administrative expenses in the 1st quarter 2017 increased from the same period last year by Baht 0.10 million or 0.73 percent. This was due to the cost of imported machinery and equipment.
- (3) Financial expenses in the 1st quarter 2017 decreased from the same period last year by Baht 1.29 million or 11.89 percent. This was due to short term and long term loan repayment, resulting in a decrease in interest expense.
- (4) Corporate income tax on profit from ethanol sales in the 1st quarter 2017 from production line No.2 was exempted, a benefit from the Board of Investment Promotion, B.E. 2520. However, there has been no corporate tax exemption on profit from production line No.1 since the investment promotion was expired. As a consequence, income tax payable in the 1st quarter 2017 was increased by Baht 2.75 million or 28.38 percent from the same period last year.

GROSS PROFIT:

Gross Profit	1 st quarter 2017		1 st quarter 2016	
	Baht Million	%	Baht Million	%
Revenue from sales	749.86	100.00	650.21	100.00
<u>Less</u> cost of sales	648.10	86.43	527.25	81.09
Gross Profit	101.76	13.57	122.96	18.91

The Company's gross profit in the 1st quarter 2017 was Baht 101.76 million or 13.57 percent of the sales revenue, a decrease from Baht 122.96 million or 18.91 percent of sale revenue. This was due to the increase in ethanol selling price as mentioned above.

EBITDA AND EBITDA MARGIN

EBITDA & EBITDA MARGIN (Unit : Baht Million)	1 st quarter 2017	1 st quarter 2016	Increase (Decrease)	%
EBITDA	121.75	139.59	(17.97)	(12.86)
EBITDA MARGIN	16.23	21.47	(5.26)	-

The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the 1st quarter 2017 was Baht 121.75 million, a decrease from the same period last year by 12.86 percent. The Company's EBITDA MARGIN in the 1st quarter 2017 was 16.23 percent of the total revenues, a decrease from the same period last year 5.26 percent due to above mentioned reasons.

NET PROFIT:

Net Profit	1 st quarter 2017	1 st quarter 2016	Increase (Decrease)	
	Baht Million %	Baht Million %	Baht Million	%
Net Profit	71.83	88.80	(16.97)	(19.11)
Net Earnings per Share –Baht per Share	0.07	0.09	(0.02)	(22.22)
Net Profit Margin	9.57	13.66	(4.09)	-
Remark: Registered par value of Baht 1 per share				

The Company's net profit in the 1st quarter 2017 was Baht 71.83 million or Baht 0.07 per share. Net profit decreased from the same period last year by 19.11 percent due to the increase in cost of sale as described above. The Company's Net Profit Margin in the 1st quarter 2017 was 9.57 percent of total revenue, decreased from the same period last year by 4.09 percent.

STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht			
	As at March 31, 2017	As at December 31, 2016	Increase (Decrease)	%
Total Assets	3,196.36	3,236.89	(28.82)	(0.89)
Total Liabilities	1,392.88	1,444.54	(100.65)	(6.45)
Total Shareholder's Equity	1,803.48	1,792.35	71.83	4.15
Book Value-Baht par Share	1.80	1.79	0.07	4.05
Remark: Registered par value of Baht 1 per share				

ASSETS:

The Company's Total Assets as at March 31, 2017 decreased from year end 2016 by Baht 28.82 million or 0.89 percent. Total Assets consisting of:

- (1) Current Assets decreased from year end 2016 by Baht 26.68 million or 2.95 percent, due to (A) Cash and cash equivalent decreased from year end 2016 by Baht 21.94 million or 59.22 percent; (B) Current investments increased from the end of 2016 by Baht 0.01 million or 1.04 percent; (C) Trade accounts receivable and other receivables increased from year end 2016 by Baht 86.87 million or 52.47 percent; (D) Inventories increased from yearend 2016 by Baht 346.38 million or 274.66 percent, most of which were molasses purchased or reserved for year 2017 (E) Advanced payments for purchases decreased from yearend 2016 by Baht 418.78 million or 77.04 percent, and (F) Other Current Assets decreased by Baht 19.22 million or 60.08 percent, most of which were tax receivables.
- (2) Non-Current Assets decreased from yearend 2016 by Baht 2.14 million or 0.09 percent, consisting of: (A) land, plant, and equipment decreased by Baht 2.31 million or 0.10 percent; (B) Other non-current assets increased by Baht 0.17 million or 3.52 percent.

LIABILITIES:

The Company's Total Liabilities as at March 31, 2017 decreased from year end 2016 by Baht 100.65 million or 6.74 percent, consisting of: (A) Trade accounts payable and other accounts payable decreased from the end of 2016 by Baht 19.39 million or 10.63 percent, most of which were molasses purchase. (B) Short term and long term loans decreased by Baht 80.71 million or 6.28 percent due to repayment of short term loans. and (C) Other liabilities decreased by Baht 0.55 million or 2.05 percent.

TOTAL SHAREHOLDERS' EQUITY:

The Company's total shareholders' equity as at March 31, 2017 increased from year end 2016 by Baht 71.83 million or 4.15 percent, the share's book value increased from Baht 1.73 per share to Baht 1.80 per share. This was due to the increase in net profit.

CASH FLOWS

Cash Flows	Unit: Million Baht	
	1 st quarter 2017	1 st quarter 2016
Cash Flows from Operating Activities	102.76	297.14
Cash Flows from Investing Activities	(43.18)	(70.95)
Cash Flows from Financing Activities	(81.52)	(226.65)
Net Increase (Decrease) in Cash	(21.94)	(0.46)
Cash at the Beginning of the Period	37.05	9.10
Cash at the End of the Period	15.11	8.64

- (1) The Company's net cash used in operating activities in the 1st quarter 2017 was Baht 102.76 million, consisting of: (A) profit before corporate income tax of Baht 78.77 million; (B) Non-cash items such as depreciation; 43.80 million.(C) a decrease in operating assets of Baht 4.78 million due to an increase in trade receivable, Other receivables and inventories while advance payments for purchase of goods and other current assets decreased; (D) decrease in operating liabilities of Baht 14.24 million due to an decrease in trade accounts payable, other accounts payable, other current liabilities and Provision for long-term employee benefits, and (E) interest expense by Baht 10.35 million.
- (2) The Company's net cash used in investment activities in the 1st quarter 2017 was Baht 43.18 million, consisting of: (A) Investment in plant and equipment of Baht 43.17 million, most of which were constructions of Hydrogen Sulfide Treatment Plant, and (B) Purchase of intangible assets in the amount of Baht 0.01 million, mainly as a computer program.
- (3) The Company's net cash used in financing activities in 1st quarter 2017 was Baht 81.52 million, including (A) Repayment of short-term loan of Baht 80.71 million, (B) Repayment of finance lease of Baht 0.81 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 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) 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) has not announced the cancellation of the gasohol 91 due to its demand decreased by 10 percent per month because of the narrow retail price gap between gasohol 91 and gasohol 95. Moreover, the Department of Alternative Energy Development and Efficiency (DEDE) is currently reviewing the Alternative Energy Development Plan (AEDP) to meet the government policies that target to increase the proportion of electricity from alternative energy production. One of the solutions is decreasing alternative energy which may not achieve as planned such as biodiesel and ethanol. This is expected to be concluded within June 2017. Both of above factors will affect the company sales volume and price in short & long-term.

However, the company has the policy to enhance the competitiveness by improving the efficiency of production and decreasing the production cost continuously. In addition, we give priority to the product quality and good relationship with customers in order to sustain the business growth and the dividend policy.
