



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

### **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE OPERATING RESULTS OF**

**THE 2<sup>nd</sup> QUARTER OF 2017**

# THAI AGRO ENERGY PUBLIC COMPANY LIMITED

## MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 2<sup>nd</sup> Quarter of 2017 and the First 6-Months of 2017)

### OVERALL OPERATING RESULTS

The Company's revenue in the 2<sup>nd</sup> quarter 2017 and in the first 6-month period of 2017 were Baht 787.58 million and Baht 1,537.78 million, respectively, which increased from the same period last year by 15.52 and 15.45 percent. The net profit in the 2<sup>nd</sup> quarter 2017 was Baht 40.67 million, increased from the same period last year by 4.12 percent. While the net profit in the first 6-month period of 2017 was Baht 112.50 million, decreased from the same period last year by 12.01 percent. This was due to molasses price increased comparing to same period last year price.

While the sales volume of ethanol in the 2<sup>nd</sup> quarter 2017 and in the first 6-month period of 2017 increased from the same period last year by 0.67 and 3.32 percent, respectively, average selling price of the 2<sup>nd</sup> quarter 2017 and the first 6-month period of 2017 increased from the same period last year by 14.84 and 11.78 percent, respectively, resulting from the higher gasohol consumption. In addition, the economic growth caused an increase of gasohol demand by 4.8 percent from the same period last year.

### OPERATING RESULTS ANALYSIS

#### REVENUE

Revenue	Year 2017		Year 2016		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
<b>2<sup>nd</sup> quarter (April – June)</b>						
Sales Revenue	786.90	99.91	680.65	99.84	106.25	15.61
Other Revenue	0.68	0.09	1.11	0.16	(0.43)	(38.74)
<b>Total Revenue</b>	<b>787.58</b>	<b>100.00</b>	<b>681.76</b>	<b>100.00</b>	<b>105.82</b>	<b>15.52</b>
<b>6-Month Period (January – June)</b>						
Sales Revenue	1,536.76	99.93	1,330.86	99.91	205.90	15.47
Other Revenue	1.02	0.07	1.16	0.09	(0.14)	(12.07)
<b>Total Revenue</b>	<b>1,537.78</b>	<b>100.00</b>	<b>1,332.02</b>	<b>100.00</b>	<b>205.76</b>	<b>15.45</b>

1. The Company's revenue in the 2<sup>nd</sup> quarter 2017 amount to Baht 787.58 million, an increase from the same period last year by Baht 105.82 million or 15.52 percent, due to the following reasons.

- (1) The revenue from ethanol sales was Baht 786.90 million or 99.91 percent of total revenue, increased from the same period last year by Baht 106.25 million or 15.61 percent due to the increase in ethanol selling price and ethanol sales volume.

- (2) The other revenue was Baht 0.68 million or 0.09 percent of total revenue, decreased from the same period of last year by Baht 0.43 million or 38.74 percent. This was due to the decrease in revenue from the sale of assets
2. The company's revenue in the first 6-month period of 2017 amount to Baht 1,537.78 million, an increase from the same period of last year by Baht 205.76 million or 15.45 percent, due to the following reasons.
- (1) The revenue from ethanol sales totaled Baht 1,536.76 million or 99.93 percent of total revenue, increased from the same period of last year Baht 205.90 million or 15.47 percent, resulted from the increase in ethanol selling price and ethanol sales volume.
- (2) The other revenue was Baht 1.02 million or 0.07 percent of total revenue, decreased from the same period of last year by Baht 0.14 million or 12.07 percent. This was due to the decrease in revenue from the sale of assets

## EXPENSES

Expenses	Year 2017		Year 2016		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	%
<b>2<sup>nd</sup> quarter (April – June)</b>						
Cost of sales	720.39	91.55	613.13	90.08	107.26	17.49
Selling and administrative expense	15.43	1.96	17.20	2.53	(1.77)	(10.29)
Financial cost	9.29	1.18	9.98	1.47	(0.69)	(6.91)
Income tax expense	1.80	0.23	2.39	0.35	(0.59)	(24.69)
<b>Total Expenses</b>	<b>746.91</b>	<b>94.92</b>	<b>642.70</b>	<b>94.42</b>	<b>104.21</b>	<b>16.21</b>
<b>6-Month Period (January – June)</b>						
Cost of sales	1,368.49	89.05	1,140.38	85.69	228.11	20.00
Selling and administrative expense	29.20	1.90	30.87	2.32	(1.67)	(5.41)
Financial cost	18.85	1.23	20.83	1.57	(1.98)	(9.51)
Income tax expense	8.74	0.57	12.08	0.91	(3.34)	(27.65)
<b>Total Expenses</b>	<b>1,425.28</b>	<b>92.75</b>	<b>1,204.16</b>	<b>90.48</b>	<b>221.12</b>	<b>18.36</b>

1. The Company's expenses in the 2<sup>nd</sup> quarter of 2017 was Baht 746.91 million, an increase from the same period last year by Baht 104.21 million or 16.21 percent, due to the following reasons.
- (1) Cost of sales increased from the same period last year by Baht 107.26 million or 17.49 percent. This was due to the higher raw material prices than the same period last year.
- (2) Selling and administrative expenses decreased from the same period of last year by Baht 1.77 million or 10.29 percent. This was due to the decrease of transportation cost and administration expenses.

- (3) Financial cost in the 2<sup>nd</sup> of quarter 2017 decreased from the same period last year by Baht 0.69 million or 6.91 percent. This was due to short term and long term loan repayment.
- (4) In the 2<sup>nd</sup> quarter of 2017, there was no corporate income tax on profits from production line No.2. However, corporate income tax amount to Baht 1.80 million was paid for production line No.1, a decrease by Baht 0.59 million or 24.69 percent from the same period last year since the investment promotion has expired.
2. The Company's expenses in the first 6-month period of 2017 totaled Baht 1,425.28 million, an increase from the same period last year by Baht 221.12 million or 18.36 percent, due to the following reasons.
- (1) Cost of sales increased from the same period last year by Baht 228.11 million or 20.00 percent. This was due to the higher raw material prices than the same period last year.
- (2) Selling and administrative expenses decreased from the same period last year by Baht 1.67 million or 5.41 percent. This was due to the decrease in cost of transportation and administration expenses.
- (3) Financial cost decreased from the same period of last year by Baht 1.98 million or 9.51 percent. This was due to the repayment of short term and long term loan.
- (4) Having received the Board of Investment Promotion, corporate income tax on profit from ethanol business in the first 6-month period for production line No.2 was exempted. However corporate income tax for production line No.1 amount to Baht 8.74 million, a decreased by Baht 3.34 million or 27.65 percent from the same period last year since the investment promotion has expired.

## GROSS PROFIT

Gross profit	Year 2017		Year 2016	
	Baht Million	%	Baht Million	%
<b>2<sup>nd</sup> quarter (April – June)</b>				
Revenues from sales	786.90	100.00	680.65	100.00
Less cost of sales	720.39	91.55	613.13	90.08
<b>Gross Profit</b>	<b>66.51</b>	<b>8.45</b>	<b>67.52</b>	<b>9.92</b>
<b>6-Month Period (January – June)</b>				
Revenues from sales	1,536.76	100.00	1,330.86	100.00
Less cost of sales	1,368.49	89.05	1,140.38	85.69
<b>Gross Profit</b>	<b>168.27</b>	<b>10.95</b>	<b>190.48</b>	<b>14.31</b>

1. The Company's gross profit in the 2<sup>nd</sup> quarter of 2017 was Baht 66.51 million, or 8.45 percent of the revenue from sales. When compared with the gross profit of the same period last year of Baht 67.52 million or 9.92 percent of the revenue from sales. The gross profit and profit margin decreased due to the increase in ethanol selling cost as described above.
2. The Company's gross profit in the first 6-month period of 2017 was Baht 168.27 million, or 10.95 percent of sales revenue while gross profit of the same period last year was 190.48 million or 14.31 percent of sale revenue. The gross profit and profit margin decreased due to the increase in ethanol selling cost as described above.

## EBITDA AND EBITDA MARGIN

EBITDA & EBITDA MARGIN (Unit : Baht Million)	Year 2017	Year 2016	Increase (Decrease)	%
<b>2<sup>nd</sup> quarter (April – June)</b>				
EBITDA	87.74	82.06	5.48	6.66
EBITDA MARGIN	11.14	12.04	(0.93)	-
<b>6-Month Period (January – June)</b>				
EBITDA	209.49	221.65	(12.49)	(5.63)
EBITDA MARGIN	13.62	16.64	(3.04)	-

- (1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the 2<sup>nd</sup> quarter 2017 was Baht 87.74 million, an increase from the same period last year by 6.66 percent. The Company's EBITDA MARGIN in the 2<sup>nd</sup> quarter of 2017 was 11.14 percent a decrease by 0.93 percent from the same period last year for the reasons explained above.
- (2) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the first 6-month period of 2017 was Baht 209.49 million, a decrease from the same period last year by 5.63 percent. The Company's EBITDA MARGIN in first 6-month period of 2017 was 13.62 percent a decrease by 3.04 percent from the same period last year for the reasons explained above.

## NET PROFIT

Net Profit	Year 2017	Year 2016	Increase/ (Decrease)	%
<b>2<sup>nd</sup> quarter (April – June)</b>				
Net Profit	40.67	39.06	1.61	4.12
NET PROFIT PER SHARE (Baht)	0.04	0.04	-	-
NET PROFIT MARGIN (%)	5.16	5.73	(0.57)	-
<b>6-Month Period (January – June)</b>				
Net Profit	112.50	127.86	(15.36)	(12.01)
NET PROFIT PER SHARE (Baht)	0.11	0.13	(0.02)	(15.38)
NET PROFIT MARGIN (%)	7.32	9.60	(2.28)	-
<u>Remark</u> Registered par value of Baht 1 per share				

- (1) The Company's net profit in the 2<sup>nd</sup> quarter of 2017 was Baht 40.67 million generating a net earnings at Baht 0.04 per share. When compared to the same period last year, the net profit increased by 4.12 percent, due to the increase in sale revenue. The Company's Net Profit Margin in the 2<sup>nd</sup> quarter 2017 was 5.16 percent of total revenue, decreased from the same period last year by 0.57 percent.
- (2)

- (2) The Company's net profit in the first 6-month period of 2017 was Baht 112.50 million or net earnings of Baht 0.11 per share. When compared to the same period last year, the net profit decreased by 12.01 percent, due to the increase in cost of sale as described above. The Company's net profit margin in the first 6-month period of 2017 was 7.32 percent of the sales revenue, a decrease from the same period last year by 2.28 percent

#### STATEMENT OF FINANCIAL POSITION

<b>Financial Position (Unit: Million Baht)</b>	<b>As at June 30, 2017</b>	<b>As at December 31, 2016</b>	<b>Increase / (Decrease)</b>	<b>%</b>
Total Assets	3,019.85	3,225.18	(205.33)	(6.37)
Total Liabilities	1,225.70	1,493.53	(267.83)	(17.93)
Total Shareholder's Equity	1,794.15	1,731.65	62.50	3.61
<b>Book Value-Baht per Share</b>	<b>1.79</b>	<b>1.73</b>	<b>0.06</b>	<b>3.47</b>
<u>Remark:</u> Registered per value of Baht 1 per share				

#### ASSETS

The Company's total assets as at June 30, 2017 decreased from the year end of 2016 by Baht 205.33 million or a decrease of 6.37 percent. Total assets consist of:

- (1) Current assets decreased from by Baht 235.78 million or a decrease of 26.05 percent, which consist of (A) cash and cash equivalent decreased by Baht 29.29 million or 79.06 percent, (B) Current investments increased by Baht 0.04 million or 4.17 percent; (C) Trade accounts receivable and other receivables increased by Baht 108.43 million or 65.50 percent; (D) Inventories increased by Baht 194.99 million or 154.62 percent, most of which were molasses procurement reserved for ethanol production in year 2017 (E) Advanced payments for purchases decreased from year end 2016 by Baht 480.94 million or 88.47 percent, and (F) Other Current Assets decreased by Baht 29.01 million or 90.68 percent.
- (2) Non-Current Assets increased from year end 2016 by Baht 30.45 million or 1.31 percent, consisting of: (A) land, plant, and equipment increased by Baht 30.22 million or 1.31 percent; (B) Other non-current assets increased by Baht 0.23 million or 4.16 percent.

#### LIABILITIES

The Company's total liabilities as at June 30, 2017 decreased from the year end of 2016 by Baht 267.83 million or a decrease of 17.93 percent, which consist of (1) Trade accounts payable and other accounts payable decreased by Baht 61.65 million or an increase of 33.81 percent, most of which were molasses expenses. (2) Short term and long term loans decreased by Baht 219.86 million or a decrease of 17.12 percent, due to loan repayment. (3) Other liabilities, increased by Baht 13.68 million or an increase of 51.03 percent.

## TOTAL SHAREHOLDERS' EQUITY

The total shareholders' equity of the Company as at June 30, 2017 increased from the end of 2016 by Baht 62.50 million or an increase of 3.61 percent, the share's book value increased from Baht 1.73 per share to Baht 1.79 per share, due to the increase of company's net profit.

## CASH FLOWS

Cash Flows	First six months period (January – June)	
	Unit: Million Baht	
	Year 2017	Year 2016
Cash Flows from (used in) Operating Activities	357.60	478.15
Cash Flows from (used in) Investing Activities	(115.37)	(91.26)
Cash Flows from (used in) Financing Activities	(271.52)	(376.77)
Net Increase (Decrease) in Cash	(29.29)	10.12
Cash at the Beginning of the Period	37.05	9.10
<b>Cash at the End of the Period</b>	<b>7.76</b>	<b>19.22</b>

- (1) The Company's net cash from operating activities in the first 6-month period of 2017 was at Baht 357.60 million which consisting of (A) income before corporate income tax of Baht 121.24 million; (B) Non cash items such as the depreciation amounted to Baht 89.14 million; (C) an decrease in operating assets of Baht 206.54 million due to an increase in trade and other receivables and inventories while advance payments for purchase of goods and current assets decreased; (D) a decrease in operating liabilities of Baht 40.07 million due to a decrease 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 18.34 million, and (G) Corporate income tax at 0.99 million.
- (2) The Company's net cash used in investment activities in the first 6-month period of 2017 was Baht 115.37 million, most of which were machinery, equipment of Hydrogen Sulfide Treatment Plant and support for productivity projects.
- (3) The Company's net cash used in financing activities in the first 6-month period of 2017 was Baht 271.52 million which include (A) short-term loan repayment at Baht 129.87 million, (B) long-term loan repayment at Baht 90.00 million (C) financial leases repayment at Baht 1.65 million, and (D) dividend payment at Baht 50.00 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 2:1 and debt service coverage ratio (DSCR) of no less than 1.25 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 Alternative Energy Development and Efficiency (DEDE) lowered the target to promote the biofuels. The goal of ethanol consumption was decreased to 4.79 million liters per day by the year 2021 compared to the original Alternative Energy Development Plan (AEDP 2015) of 5.74 million liters per day in order to conform to the government policies that target to increase the proportion of electricity from alternative energy production. The above factor 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 retain the domestic ethanol market share. Moreover, the company has been studying the export market and the ethanol downstream in order to sustain the business growth and the dividend policy.

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