



**THAI AGRO ENERGY PUBLIC COMPANY LIMITED**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR FINANCIAL STATEMENTS OF**

**THE 1<sup>st</sup> QUARTER 2018**

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## MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 1<sup>st</sup> Quarter 2018)

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### OVERALL OPERATING RESULTS

The Company's revenue in the 1<sup>st</sup> quarter 2018 was Baht 606.78 million, which decreased from the same period last year by 19.12 percent. Due to the ethanol sales volume and price decreased by 16.94 percent and 2.68 percent respectively. The net profit in the 1<sup>st</sup> quarter 2018 was Baht 64.48 million, decreased from the same period last year by 10.23 percent. Due to the oversupply situation, evident from the high volumes of ethanol in stock of the production sector in the 1<sup>st</sup> quarter 2018 when compared to the same period last year, as a result, many of the manufacturers expeditiously seduced the excessive stock by selling ethanol to buyers at prices lower than the prices offered by the Company. As the consequence, the Company inevitably lost some market share to the rivals.

### OPERATING RESULTS ANALYSIS

#### REVENUE:

Revenue	1 <sup>st</sup> quarter 2018		1 <sup>st</sup> quarter 2017		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Revenue from Ethanol sale	606.28	99.92	749.86	99.95	(143.58)	(19.15)
Other Revenue	0.50	0.08	0.34	0.05	0.16	47.06
<b>Total Revenue</b>	<b>606.78</b>	<b>100.00</b>	<b>750.20</b>	<b>100.00</b>	<b>(143.42)</b>	<b>(19.12)</b>

The Company's total revenue in the 1<sup>st</sup> quarter 2018 was Baht 606.78 million, a decrease from the same period last year by Baht 143.42 million or 19.12 percent. Reasons being:

- (1) The revenue from ethanol sales was Baht 606.28 million or 99.92 percent of total revenue, a decrease from the same period last year by Baht 143.58 million or 19.15 percent, this was due to the ethanol sales volume and ethanol selling price were decreased as mentioned above.
- (2) The other revenue was Baht 0.50 million or 0.08 percent of total revenue, increased from the same period last year by Baht 0.16 million or 47.06 percent, The revenue from the sale of sugar cane, which is the agricultural crop derived from the purchase of land of the Company.

**EXPENSES:**

Expenses	1 <sup>st</sup> quarter 2018		1 <sup>st</sup> quarter 2017		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	% Sale
Cost of sale	509.12	83.97	648.10	86.43	(138.98)	(21.44)
Selling and administrative expense	21.45	3.54	13.77	1.84	7.68	55.77
Loss from flood event	2.25	0.37	-	-	2.25	100.0
Financial cost	8.48	1.40	9.56	1.27	(1.08)	(11.30)
Income tax expense	1.00	0.17	6.94	0.93	(5.94)	(85.59)
<b>Total Expenses</b>	<b>542.30</b>	<b>89.45</b>	<b>678.37</b>	<b>90.47</b>	<b>(136.07)</b>	<b>(20.06)</b>

The Company's expenses in the 1<sup>st</sup> quarter 2018 amounted to Baht 542.30 million, a decrease from the same period last year by Baht 136.07 million or 20.06 percent, Reasons being:

- (1) Cost of ethanol sales in the 1<sup>st</sup> quarter 2018 decreased from the same previous last year by Baht 138.98 million or 21.44 percent. Due to the molasses price, which is the main raw material, was lower than last year.
- (2) Selling and administrative expenses in the 1<sup>st</sup> quarter 2018 increased from the same period last year by Baht 7.68 million or 55.77 percent. Due to an increase form salary, transportation and Corporate Social Responsibility cost.
- (3) Loss from flood event of Baht 2.25 million due to compensation for damages caused by the waste water storage ponds on October 2017.
- (4) Financial expenses in the 1<sup>st</sup> quarter 2018 decreased from the same period last year by Baht 1.08 million or 11.30 percent. Due to the loan repayment.
- (5) Corporate income tax on profit from ethanol sales in the 1<sup>st</sup> quarter 2018 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 1<sup>st</sup> quarter 2018 was decreased by Baht 5.94 million or 85.59 percent from the same period last year.

**GROSS PROFIT:**

Gross Profit	1 <sup>st</sup> quarter 2018		1 <sup>st</sup> quarter 2017	
	Baht Million	%	Baht Million	%
Revenue from sales	606.28	100.00	749.86	100.00
<u>Less</u> cost of sales	509.12	83.97	648.10	86.43
<b>Gross Profit</b>	<b>97.16</b>	<b>16.03</b>	<b>101.76</b>	<b>13.57</b>

The Company's gross profit in the 1<sup>st</sup> quarter 2018 was Baht 97.16 million or 16.03 percent of the sales revenue, a decrease from Baht 101.76 million or 13.57 percent of sale revenue. This was due to the decrease in ethanol selling price as mentioned above.

## EBITDA AND EBITDA MARGIN

<b>EBITDA &amp; EBITDA MARGIN</b> <b>(Unit : Baht Million)</b>	<b>1<sup>st</sup> quarter 2018</b>	<b>1<sup>st</sup> quarter 2017</b>	<b>Increase (Decrease)</b>	<b>%</b>
EBITDA	112.57	121.75	(9.18)	(7.54)
EBITDA MARGIN	18.55	16.23	2.32	-

The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the 1<sup>st</sup> quarter 2018 was Baht 112.57 million, a decrease from the same period last year by 7.54 percent. The Company's EBITDA MARGIN in the 1<sup>st</sup> quarter 2018 was 18.55 percent of the total revenues, an increase from the same period last year 2.32 percent due to above mentioned reasons.

## NET PROFIT:

<b>Net Profit</b>	<b>1<sup>st</sup> quarter 2018</b>	<b>1<sup>st</sup> quarter 2017</b>	<b>Increase (Decrease)</b>	
	<b>Baht Million %</b>	<b>Baht Million %</b>	<b>Baht Million</b>	<b>%</b>
Net Profit	64.48	71.83	(7.35)	(10.23)
Net Earnings per Share –Baht per Share	0.06	0.07	(0.01)	(14.29)
Net Profit Margin	10.63	9.57	1.06	-
<b>Remark:</b> Registered par value of Baht 1 per share				

The Company's net profit in the 1<sup>st</sup> quarter 2018 was Baht 64.48 million or Baht 0.06 per share. Net profit decreased from the same period last year by 10.23 percent. The Company's Net Profit Margin in the 1<sup>st</sup> quarter 2018 was 10.63 percent of total revenue, increased from the same period last year by 1.06 percent. The reason is as described above.

## STATEMENT OF FINANCIAL POSITION

<b>Financial Position</b>	<b>Unit: Million Baht</b>			
	<b>As at March 31, 2018</b>	<b>As at December 31, 2017</b>	<b>Increase (Decrease)</b>	<b>%</b>
Total Assets	3,353.16	2,830.29	522.87	18.47
Total Liabilities	1,660.77	1,202.38	458.39	38.12
Total Shareholder's Equity	1,692.39	1,627.91	64.48	3.96
<b>Book Value - Baht per Share</b>	<b>1.69</b>	<b>1.63</b>	<b>0.06</b>	<b>3.68</b>
<b>Remark:</b> Registered par value of Baht 1 per share				

## ASSETS:

The Company's Total Assets as at March 31, 2018 increased from year end 2017 by Baht 522.87 million or 18.47 percent. Total Assets consisting of:

- (1) Current Assets increased from year end 2017 by Baht 448.67 million or 105.68 percent, due to (A) Cash and cash equivalent decreased from year end 2017 by Baht 0.83 million or 2.35 percent; (B) Current investments increased from the end of 2017 by Baht 0.01 million or 0.98 percent; (C) Trade accounts receivable and other receivables decreased from year end 2017 by Baht 12.03 million or 5.65 percent; (D) Inventories increased from yearend 2017 by Baht 309.03 million or 251.45 percent, most of which were molasses purchased or reserved for year 2017 (E) Advanced payments for purchases increased from yearend 2017 by Baht 125.04 million or 325.46 percent, and (F) Other Current Assets increased by Baht 27.45 million or 194.82 percent, most of which were tax receivables.
- (2) Non-Current Assets increased from year end 2017 by Baht 74.20 million or 3.08 percent, consisting of:
  - (A) land, plant, and equipment increased by Baht 76.23 million or 3.18 percent;
  - (B) Other non-current assets decreased by Baht 2.03 million or 27.36 percent.

## LIABILITIES:

The Company's Total Liabilities as at March 31, 2018 increased from year end 2017 by Baht 458.39 million or 38.12 percent, consisting of: (A) Trade accounts payable and other accounts payable increased from the end of 2017 by Baht 1.22 million or 0.76 percent, most of which were molasses purchase. (B) Short term and long term loans increased by Baht 466.64 million or 45.89 percent due to repayment of short term loans. and (C) Other liabilities decreased by Baht 9.47 million or 36.79 percent.

## TOTAL SHAREHOLDERS' EQUITY:

The Company's total shareholders' equity as at March 31, 2018 increased from year end 2017 by Baht 64.48 million or 3.96 percent, the share's book value increased from Baht 1.63 per share to Baht 1.69 per share. This was due to the increase in net profit.

## CASH FLOWS

Cash Flows	Unit: Million Baht	
	1 <sup>st</sup> quarter 2018	1 <sup>st</sup> quarter 2017
Cash Flows from Operating Activities	(360.60)	102.76
Cash Flows from Investing Activities	(106.02)	(43.18)
Cash Flows from Financing Activities	465.79	(81.52)
Net Increase (Decrease) in Cash	(0.83)	(21.94)
Cash at the Beginning of the Period	35.31	37.05
<b>Cash at the End of the Period</b>	<b>34.48</b>	<b>15.11</b>

- (1) The Company's net cash used in operating activities in the 1<sup>st</sup> quarter 2018 was Baht 360.60 million, consisting of: (A) profit before corporate income tax of Baht 65.48 million; (B) Non-cash items such as depreciation; 47.05 million.(C) an increase in operating assets of Baht 447.63 million due to the increase in trade receivable, Other receivables and inventories while advance payments for purchase of goods and other current assets increased; (D) a decrease in operating liabilities of Baht 17.32 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 8.18 million.
- (2) The Company's net cash used in investment activities in the 1<sup>st</sup> quarter 2018 was Baht 106.02 million, consisting of : Investments in machinery and equipment, most of which are construction of EVAPORATOR SYSTEM FOR BIO METHANATED SPENT WASH 3,000 M3/DAY plant, purchase of land and improvement of wastewater management system.
- (3) The Company's net cash used in financing activities in 1<sup>st</sup> quarter 2018 was Baht 465.79 million, including (A) Repayment of short-term loan of Baht 466.64 million, (B) Repayment of finance lease of Baht 0.85 million.

#### **DEBT OBLIGATION**

The company has debt obligation in accordance with 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 2.00 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 rising trend of global crude oil price in 2018 may retard the consumption of gasoline. However, the use of gasohol 91 has drastically dropped, as the Ministry of Energy has set a pricing policy by narrowing the price gap between gasohol 91 and gasohol 95 to encourage motorists to use gasohol E20 and E85 instead. As a result, the demand for ethanol in 2018 is expected to be higher than year 2017.

In the year 2018, the Company continues to maintain policy to reduce operating costs by improving production efficiency, choosing appropriate raw materials and controlling expenditures to enhance competitiveness and generate maximum return to the shareholders.

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