



THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE OPERATING RESULTS OF

THE 3rd QUARTER OF 2018

THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 3rd Quarter of 2018 and the First 9-Months of 2018)

OVERALL OPERATING RESULTS

The Company's revenue in the 3rd quarter 2018 and in the first 9-month period of 2018 were Baht 631.45 million and Baht 1,954.14 million, respectively, a decreased from the same period last year by 7.99 and 12.14 percent. This was due to the average selling price of the 3rd quarter 2018 and the first 9-month period of 2018 decreased from the same period last year by 9.55 and 7.02 percent. The net profit in the 3rd quarter 2018 and in the first 9-month period of 2018 were Baht 72.20 million and Baht 195.66 million, increased from the same period last year by 24.91 percent and 14.89 percent, This was due to the molasses price of 2017/2018 crop decreased by an average of 18 percent compared to the previous crop and the ability to maintain production cost to a satisfactory level as planned.

OPERATING RESULTS ANALYSIS

REVENUE

Revenue	Year 2018		Year 2017		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
3rd quarter (July – September)						
Sales Revenue	630.93	99.92	685.89	99.94	(54.96)	(8.01)
Other Revenue	0.52	0.08	0.41	0.06	0.11	26.83
Total Revenue	631.45	100.00	686.30	100.00	(54.85)	(7.99)
9-Month Period (January – September)						
Sales Revenue	1,952.62	99.92	2,222.65	99.94	(270.03)	(12.15)
Other Revenue	1.52	0.08	1.43	0.06	0.09	6.29
Total Revenue	1,954.14	100.00	2,224.08	100.00	(269.94)	(12.14)

1. The Company's revenue in the 3rd quarter 2018 amount to Baht 631.45 million, a decrease from the same period last year by Baht 54.85 million or 7.99 percent, due to the following reasons.

- (1) The revenue from ethanol sales was Baht 630.93 million or 99.92 percent of total revenue, increased from the same period last year by Baht 54.96 million or 8.01 percent. This was due to the decrease in ethanol selling price.
- (2) The other revenue was Baht 0.52 million or 0.08 percent of total revenue, increased from the same period of last year by Baht 0.11 million or 26.83 percent. This was due to the increase in revenue from the sale of Fusel oil.

2. The Company's revenue in the first 9-month period of 2018 amount to Baht 1,954.14 million, a decrease from the same period of last year by Baht 269.94 million or 12.14 percent, due to the following reasons.

- (1) The revenue from ethanol sales totaled Baht 1,952.62 million or 99.92 percent of total revenue, decreased from the same period of last year Baht 270.03 million or 12.15 percent, resulted from the increase in ethanol selling price and ethanol sales volume.
- (2) The other revenue was Baht 1.52 million or 0.08 percent of total revenue, increased from the same period of last year by Baht 0.09 million or 6.29 percent. This was due to revenue from sale of sugar cane, which the Company acquired from the purchase of land.

EXPENSES

Expenses	Year 2018		Year 2017		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	%
<u>3rd quarter (July – September)</u>						
Cost of sales	527.30	83.58	609.99	88.93	(82.69)	(13.56)
Selling and administrative expense	15.91	2.52	13.17	1.92	2.74	20.80
Financial cost	10.01	1.59	7.51	1.09	2.50	33.29
Income tax expense	6.03	0.96	(2.17)	(0.32)	8.20	N/A
Total Expenses	559.25	88.65	628.50	91.63	(69.25)	(11.02)
<u>9-Month Period (January – September)</u>						
Cost of sales	1,658.33	84.93	1,978.48	89.01	(320.15)	(16.18)
Selling and administrative expense	56.85	2.91	42.37	1.91	14.48	34.18
Loss from flood event	2.25	0.12	-	-	2.25	-
Financial cost	29.23	1.50	26.36	1.19	2.87	10.89
Income tax expense	11.82	0.61	6.57	0.30	5.25	79.91
Total Expenses	1,758.48	90.07	2,053.78	92.40	(295.30)	(14.38)

1. The Company's expenses in the 3rd quarter of 2018 was Baht 559.25 million, a decrease from the same period last year by Baht 69.25 million or 11.02 percent, due to the following reasons.

- (1) Cost of sales decreased from the same period last year by Baht 82.69 million or 13.56 percent. This was due to the lower raw material prices than the same period last year.
- (2) Selling and administrative expenses increased from the same period of last year by Baht 2.74 million or 20.80 percent. This was due to the increase of transportation cost and administration expenses.
- (3) Financial cost in the 3rd of quarter 2018 increased from the same period last year by Baht 2.50 million or 33.29 percent. This was due to short term and long term loan repayment.
- (4) Corporate income tax in the 3rd of quarter of 2018, a decrease from the same period last year by Baht 8.20 million

2. The Company's expenses in the first 9-month period of 2018 totaled Baht 1,758.48 million, a decrease from the same period last year by Baht 295.30 million or 14.38 percent, due to the following reasons.
- (1) Cost of sales decreased from the same period last year by Baht 320.15 million or 16.18 percent. This was due to the lower raw material prices than the same period last year.
 - (2) Selling and administrative expenses increased from the same period last year by Baht 14.48 million or 34.18 percent. This was due to the increase in cost of transportation and administration expenses.
 - (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 cost increased from the same period of last year by Baht 2.87 million or 10.89 percent. This was due to the higher short term loan than the same period last year.
 - (5) Income tax expense in the first 9-month period of 2018 increased by Baht 5.25 million or 79.91 percent from the same period last year.

GROSS PROFIT

Gross profit	Year 2018		Year 2017	
	Baht Million	%	Baht Million	%
3rd quarter (July – September)				
Revenues from sales	630.93	100.00	685.89	100.00
Less cost of sales	527.30	83.58	609.99	88.93
Gross Profit	103.63	16.42	75.90	11.07
9-Month Period (January – September)				
Revenues from sales	1,952.62	100.00	2,222.65	100.00
Less cost of sales	1,658.33	84.93	1,978.48	89.01
Gross Profit	294.29	15.07	244.17	10.99

1. The Company's gross profit in the 3rd quarter of 2018 was Baht 103.63 million, or 16.42 percent of the revenue from sales. When compared with the gross profit of the same period last year of Baht 75.90 million or 11.07 percent of the revenue from sales. The gross profit increased due to the decrease in ethanol selling cost as described above.
2. The Company's gross profit in the first 9-month period of 2018 was Baht 294.29 million, or 15.07 percent of the revenue from sales. When compared with the gross profit of the same period last year of Baht 244.17 million or 10.99 percent of the revenue from sales. The gross profit increased due to the decrease in ethanol selling cost as described above.

EBITDA AND EBITDA MARGIN

EBITDA & EBITDA MARGIN (Unit : Baht Million)	Year 2018	Year 2017	Increase (Decrease)	%
3rd quarter (July – September)				
EBITDA	128.52	100.84	27.68	27.45
EBITDA MARGIN (%)	20.35	14.69	5.66	-
9-Month Period (January – September)				
EBITDA	355.26	310.33	44.93	14.48
EBITDA MARGIN (%)	18.18	13.95	4.23	-

- The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the 3rd quarter 2018 was Baht 128.52 million, an increase from the same period last year by 27.45 percent. The Company's EBITDA MARGIN in the 3rd quarter of 2018 was 20.35 percent an increase by 5.66 percent from the same period last year for the reasons explained above.
- The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the first 9-month period of 2018 was Baht 355.26 million, an increase from the same period last year by 14.48 percent. The Company's EBITDA MARGIN in first 9-month period of 2018 was 18.18 percent an increase by 4.23 percent from the same period last year for the reasons explained above.

NET PROFIT

Net Profit	Year 2018	Year 2017	Increase/ (Decrease)	%
3rd quarter (July – September)				
Net Profit	72.20	57.80	14.40	24.91
NET PROFIT PER SHARE (Baht)	0.07	0.06	0.01	16.67
NET PROFIT MARGIN (%)	11.43	8.42	3.01	-
9-Month Period (January – September)				
Net Profit	195.66	170.30	25.36	14.89
NET PROFIT PER SHARE (Baht)	0.20	0.17	0.03	17.65
NET PROFIT MARGIN (%)	10.01	7.66	2.35	-
<u>Remark</u> Registered par value of Baht 1 per share				

- The Company's net profit in the 3rd quarter of 2018 was Baht 72.20 million generating a net earnings at Baht 0.07 per share. When compared to the same period last year, the net profit increased by 24.91 percent. The Company's Net Profit Margin in the 3rd quarter 2018 was 11.43 percent of total revenue, increased from the same period last year by 3.01 percent for the reasons explained above.
- The Company's net profit in the first 9-month period of 2018 was Baht 195.66 million or net earnings of Baht 0.20 per share. When compared to the same period last year, the net profit increased by

14.89 percent. The Company's net profit margin in the first 9-month period of 2018 was 10.01 percent of total revenue, an increase from the same period last year by 2.35 percent

STATEMENT OF FINANCIAL POSITION

Financial Position (Unit: Million Baht)	As at September 30, 2018	As at December 31, 2017	Increase / (Decrease)	%
Total Assets	3,446.67	2,830.29	616.38	21.78
Total Liabilities	1,773.08	1,202.38	570.70	47.46
Total Shareholder's Equity	1,673.59	1,627.91	45.68	2.81
Book Value-Baht per Share	1.67	1.63	0.04	2.45
<u>Remark:</u> Registered per value of Baht 1 per share				

ASSETS

The Company's total assets as at September 30, 2018 increased from the year end of 2017 by Baht 616.38 million or an increase of 21.78 percent. Total assets consist of:

1. Current assets increased from the year end 2017 by Baht 296.34 million or 69.80 percent, which consist of (A) cash and cash equivalent decreased by Baht 16.35 million or 46.30 percent (B) Trade and other receivables decreased by Baht 11.08 million or 5.21 percent; (C) Inventories increased by Baht 270.32 million or 219.95 percent, most of which were molasses (D) Advanced payments for purchases increased from year end 2017 by Baht 34.61 million or 90.08 percent, and (E) Other Current Assets increased by Baht 18.84 million or 124.69 percent, most of which were refundable tax.
2. Non-Current Assets increased from year end 2017 by Baht 320.04 million or 13.30 percent, consisting of: (A) land, plant, and equipment increased by Baht 321.41 million or 13.40 percent; (B) Other non-current assets decreased by Baht 1.37 million or 18.46 percent.

LIABILITIES

The Company's total liabilities as at September 30, 2018 increased from the year end of 2017 by Baht 570.70 million or 47.46 percent, which consist of (A) Trade and other payables increased by Baht 4.47 million or 2.80 percent, most of which were molasses expenses. (B) Short term and long term loans increased by Baht 560.06 million or 55.08 percent, Mainly used for working capital and purchase of raw materials. (C) Other liabilities increased by Baht 6.17 million or 23.97 percent.

TOTAL SHAREHOLDERS' EQUITY

The total shareholders' equity of the Company as at September 30, 2018 increased from the end of 2017 by Baht 45.68 million or 2.81 percent, the share's book value increased from Baht 1.63 per share to Baht 1.67 per share, due to the increase of company's net profit.

CASH FLOWS

Cash Flows	Nine months period (January – September)	
	Unit: Million Baht	
	Year 2018	Year 2017
Cash Flows from (used in) Operating Activities	(13.44)	673.15
Cash Flows from (used in) Investing Activities	(410.43)	(161.98)
Cash Flows from (used in) Financing Activities	407.52	(536.77)
Net Increase (Decrease) in Cash	(16.35)	(25.60)
Cash at the Beginning of the Period	35.31	37.05
Cash at the End of the Period	18.96	11.45

1. The Company's net cash from operating activities in the first 9-month period of 2018 was at Baht 13.44 million which consisting of (A) income before corporate income tax of Baht 207.48 million; (B) Non cash items such as the depreciation amounted to Baht 148.71 million; (C) an increase in operating assets of Baht 310.78 million due to an increase in inventories advance payments for purchase of goods and other current assets while, trade receivables and other non-current assets decreased; (D) a decrease in operating liabilities of Baht 27.58 million due to a decrease in trade and other payables, provision for long-term employees benefits decreased while, Other current liabilities increased; (E) Interest income at Baht 0.07 million (F) interest expense at Baht 26.57 million, and (G) Corporate income tax at 4.77 million.
2. The Company's net cash used in investment activities in the first 9-month period of 2018 was Baht 410.43 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 9-month period of 2018 was Baht 407.52 million which include (A) received short-term loan at Baht 390.66 million; (B) received long-term loan Baht 259.40 million; (C) financial leases repayment at Baht 2.56 million; (D) long-term loan repayment at Baht 90.00 million; and (E) dividend payment at Baht 149.98 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 2.00 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

In 2018, the Company performance is expected to be higher than previous year as a result from lower raw material cost, production cost and expenses. Meanwhile the molasses price situation of the new crop in year 2018/19 is projected to remain low due to the high production output of sugar cane. As a result, the Company's operating performance in the year 2019 is expected to be as high as this year.
