



THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FINANCIAL STATEMENTS OF

THE 3rd QUARTER 2019



MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 3rd Quarter 2019)

OVERALL OPERATING RESULTS

The Company's overall operating results during the 3rd quarter 2019 and the first 9-month period of 2019 considered as excellent and very satisfactory. The Company had total revenue in the 3rd quarter 2019 and the first 9-month period of 2019 Baht 661.81 million and 2,038.38 million, which increased from the same period last year by 4.81 and 4.31 percent. This was due to the sales volume of ethanol increased from the same period last year by 4.10 and 10.75 percent. The net profit of the 3rd quarter of 2019 and the first 9-month period of 2019 were Baht 153.92 million and 476.45 million, which increased from the same period last year by 113.19 and 143.51 percent, generating a net earnings at Baht 0.15 per share and Baht 0.48 per share, which increased from the same period last year by 114.29 percent and 140 percent due to the cost of molasses, the raw material, which is a major cost decreased from the same period last year by 16.14 and 23.23 percent respectively.

OPERATING RESULTS ANALYSIS

REVENUE:

(1) The Company's revenue in the 3rd quarter 2019 totaled Baht 661.81 million, which increased from the same period last year by Baht 30.36 million or 4.81 percent, due to the following reasons.

(1.1) The revenue from ethanol sales was Baht 621.24 million or 93.87 percent of total revenue, decreased by Baht 9.69 million or 1.54 percent from the same period last year due to the selling price decreased from the same period last year by 5.41 percent, but the ethanol sales volume increased from the same period last year by 4.10 percent.

(1.2) The other revenue was Baht 40.57 million or 6.13 percent of total revenue, increased from the same period last year by Baht 40.05 million or 7,701.92 percent. This was due to the Company received compensation from the insurance company regarding to the flood in 2017.

(2) The Company's revenue in the first 9-month period of 2019 totaled Baht 2,038.38 million, which increased from the same period of last year by Baht 84.24 million or 4.31 percent, due to the following reasons.

(2.1) The revenue from ethanol sales was Baht 1,995.17 million or 97.88 percent of total revenue, which increased from the same period of last year Baht 42.55 million or 2.18 percent due to the increase of ethanol sales volume from the same period last year by 10.75 percent but the ethanol selling price decrease from the same period last year by 7.77 percent in average.



(2.2) The other revenue was Baht 43.21 million or 2.12 percent of total revenue, which increased from the same period of last year by Baht 41.69 million or 2,742.76 percent. This was due to the Company received compensation from the insurance company regarding to the flood in 2017.

Revenue	Year 2019		Year 2018		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
3rd quarter (July – September)						
Sales Revenue	621.24	93.87	630.93	99.92	(9.69)	(1.54)
Other Revenue	40.57	6.13	0.52	0.08	40.05	7,701.92
Total Revenue	661.81	100.00	631.45	100.00	30.36	4.81
9-Month Period (January – September)						
Sales Revenue	1,995.17	97.88	1,952.62	99.92	42.55	2.18
Other Revenue	43.21	2.12	1.52	0.08	41.69	2,742.76
Total Revenue	2,038.38	100.00	1,954.14	100.00	84.24	4.31

EXPENSES:

(1) The Company's expenses in the 3rd quarter 2019 totaled Baht 507.89 million, which decreased from the same period last year by Baht 51.36 million or 9.18 percent, due to the following reasons;

(1.1) Cost of ethanol sales decreased from the same period last year by Baht 52.92 million or 10.04 percent. This was due to decreases in the average price of molasses which is raw material of 16.14 percent, from the same period last year as described above.

(1.2) Selling and administrative expenses increased from the same period last year by Baht 8.19 million or 51.48 percent. This was due to the increase of freight cost and employee benefits expense.

(1.3) Finance expenses decreased from the same period last year by Baht 2.05 million or 20.48 percent. This was due to the partial loan repayment.

(1.4) Corporate income tax decreased from the same period last year by Baht 4.58 million or 75.95 percent due to the additional tax exemption for ethanol production line no. 1 from investment promotion as its efficiency was improved to reduce environment impact.

(2) The Company's expenses in the first 9-month period of 2019 totaled Baht 1,561.93 million, a decrease from the same period last year by Baht 196.55 million or 11.18 percent, due to the following reasons.



(2.1) Cost of ethanol sales decreased from the same period last year by Baht 204.75 million or 12.35 percent. This was due to the price of molasses, the raw material, which is a major cost decreased from the same period last year by 23.23 percent in average as mentioned above.

(2.2) Selling and administrative expenses increased from the same period last year by Baht 6.97 million or 11.79 percent. This was due to the the increase of freight cost and employee benefits expense.

(2.3) Finance cost decreased from the same period of last year by Baht 2.75 million or 9.41 percent. This was due to the partial loan repayment.

(2.4) Corporate Income tax expense increased from the same period last year by Baht 3.98 million or 33.67 percent from in line with the increase in profit.

Expenses	Year 2019		Year 2018		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	%
3rd quarter (July – September)						
Cost of sales	474.38	76.36	527.30	83.58	(52.92)	(10.04)
Selling and administrative expense	24.10	3.88	15.91	2.52	8.19	51.48
Financial cost	7.96	1.28	10.01	1.59	(2.05)	(20.48)
Corporate Income tax	1.45	0.23	6.03	0.96	(4.58)	(75.95)
Total Expenses	507.89	81.75	559.25	88.65	(51.36)	(9.18)
9-Month Period (January – September)						
Cost of sales	1,453.58	72.85	1,658.33	84.93	(204.75)	(12.35)
Selling and administrative expense	66.07	3.31	59.10	3.03	6.97	11.79
Financial cost	26.48	1.33	29.23	1.50	(2.75)	(9.41)
Corporate Income tax	15.80	0.79	11.82	0.61	3.98	33.67
Total Expenses	1,561.93	78.28	1,758.48	90.07	(196.55)	(11.18)

GROSS PROFIT:

(1) The Company's gross profit in the 3rd quarter of 2019 was Baht 146.86 million, or 23.64 percent of the revenue from sales, increased from the same period of last year which the gross profit was 103.63 million or 16.42 percent of the revenue from sales. This was due to the ethanol sales volume increased from the same period last year by 4.10 percent and the average price of molasses, the raw material, which is a major cost decreased from the same period last year by 16.14 percent.

(2) The Company's gross profit in the first 9-month period of 2019 was Baht 541.59 million, or 27.15 percent of sales revenue, which increased from the same period of last year which the gross profit was 294.29 million or 15.07 percent of the revenue from sales. This was due to the increase of



ethanol sales volume from the same period last year by 10.75 percent and the average price of molasses, the raw material, which is a major cost decreased from the same period last year by 23.23 percent.

Gross profit	Year 2019		Year 2018	
	Baht Million	%	Baht Million	%
3rd quarter (July – September)				
Revenues from sales	621.24	100.00	630.93	100.00
Less cost of sales	474.38	76.36	527.30	83.58
Gross Profit	146.86	23.64	103.63	16.42
9-Month Period (January – September)				
Revenues from sales	1,995.17	100.00	1,952.62	100.00
Less cost of sales	1,453.58	72.85	1,658.33	84.93
Gross Profit	541.59	27.15	294.29	15.07

NET PROFIT:

(1) The Company's net profit in the 3rd quarter of 2019 was Baht 153.92 million. When compared to the same period last year, the net profit increased by Baht 81.72 million or 113.19 percent, generating a net earnings at Baht 0.15 per share which increased from the same period last year by Baht 0.08 per share or 114.29 percent due to the reasons as described above.

(2) The Company's net profit in the first 9-month period of 2019 was Baht 476.45 million. When compared to the same period last year, the net profit increased by Baht 280.79 million or 143.51 percent, generating a net earnings at Baht 0.48 per share which increased from the same period last year by Baht 0.28 per share or 140 percent due to the reasons as described above.

Net Profit	Unit	Year 2019	Year 2018	Increase/ (Decrease)	%
3rd quarter (July-September)					
NET PROFIT	Million Baht	153.92	72.20	81.72	113.19
NET PROFIT PER SHARE (Baht)	Baht per Share	0.15	0.07	0.08	114.29
9-Month Period (January – September)					
NET PROFIT	Million Baht	476.45	195.66	280.79	143.51
NET PROFIT PER SHARE (Baht)	Baht per Share	0.48	0.20	0.28	140.00
<u>Remark</u> Registered par value of Baht 1 per share					



EARNINGS EFFICIENCY

(1) EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) of the Company in the 3rd quarter 2019 was Baht 205.64 million, which increased from the same period last year by Baht 77.12 million or 60.01 percent and EBITDA margin was at 31.07 percent, which increased from the same period last year by 10.72 percent. While EBITDA of the Company in the first 9-month period of 2019 was Baht 642.70 million which increased from the same period last year by Baht 287.44 million or 80.91 percent and EBITDA margin was 31.53 percent, which increased from the same period last year by 13.35 percent.

(2) Net profit margin of the Company in the 3rd quarter 2019 was at 23.26 percent, which increased from the same period last year by 11.83 percent. Net profit margin of the Company in the first 9-month of 2019 was at 23.37 percent, which increased from the same period last year by 13.36 percent.

(3) Return on equity of the Company in the first 9-month period of 2019 was at 31.33 percent, which increased from the end of year 2018 by 14.02 percent.

(4) Return on total assets of the Company in the first 9-month period of 2019 was at 15.81 percent, which increased from the end of 2018 by 6.90 percent. The return on fixed assets in the first 9-month of 2019 was at 26.57 percent, which increased from the end of year 2018 by 8.97 percent.

STATEMENT OF FINANCIAL POSITION

FINANCIAL POSITION	Unit	As at September 30, 2019	As at December 31, 2018	Increase (Decrease)	%
Total Assets	Million Baht	3,503.91	3,772.27	(268.36)	(7.11)
Total Liabilities	Million Baht	1,605.25	2,000.07	(394.82)	(19.74)
Total Shareholder's Equity	Million Baht	1,898.66	1,772.20	126.46	7.14
Book Value	Baht per Share	1.90	1.77	0.13	7.34
Remark: Registered per value of Baht 1 per share					

ASSETS: The Company's total assets as at September 30, 2019 decreased from the end of year 2018 by Baht 268.36 million or 7.11 percent. The total assets consisting of:

(1) Current Assets decreased from the end of 2018 by Baht 326.76 million or 32.36 percent, due to (A) Cash and cash equivalent increased by Baht 1.08 million or 3.36 percent; (B) Inventories, most of which were molasses, increased by Baht 206.09 million or 145.53 percent; (C) Trade accounts receivable and other receivables decreased by Baht 27.48 million or 9.96 percent; (D) Advances



payment for purchase goods, most of which were molasses, decreased by Baht 502.12 million or 92.11 percent, and (F) Other current assets decreased by Baht 4.33 million or 29 percent.

(2) Non-Current Assets increased from the end of year 2018 by Baht 58.40 million or 2.11 percent, consisting of: (A) Biological assets increased by Baht 1.29 million; (B) Construction cost of the Wastewater Evaporation Plant, increased by Baht 57.37 million or 2.08 percent; (C) Other non-current assets decreased by Baht 0.26 million or 4.02 percent.

LIABILITIES : The Company's Total Liabilities as at September 30, 2019 decreased from the end of year 2018 by Baht 394.82 million or 19.74 percent, due to (A) Trade accounts payable and other accounts payable, most of which were molasses purchase, decreased by Baht 38.39 million or 26.38 percent. (B) Short term and long term loans which for raw material supply and the construction of the Wastewater Evaporation Plant, decreased by Baht 344.62 million or 19.12 percent, and (C) Other liabilities which most were interest and remaining corporate income tax decreased by Baht 11.81 million or 22.78 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at September 30, 2019 increased from the end of year 2018 by Baht 126.46 million or 7.14 percent, resulting in an increase of the share's book value from Baht 1.77 per share to Baht 1.90 per share due to an increase of net profit.

CASH FLOWS

Cash Flows (Unit: Baht Million)	First 9-months period (January – September)	
	Year 2019	Year 2018
Cash Flows from (used in)Operating Activities	915.66	(13.44)
Cash Flows from (used in)Investing Activities	(217.93)	(410.43)
Cash Flows from (used in)Financing Activities	(696.65)	407.52
Net Increase (Decrease) in Cash	1.08	(16.35)
Cash at the Beginning of the Period	32.19	35.31
Cash at the End of the Period	33.27	18.96

(1) The Company's net cash used in operating activities in the first 9-month period of 2019 was Baht 915.66 million, consisting of: (A) Profit before corporate income tax of Baht 492.25 million; (B) Non-cash items such as depreciation of Baht 152.43 million; (C) An decrease in operating assets of Baht 325.64 million due to an decrease in trade and other receivables and inventories and advance payments for purchase of goods and current assets; (D) An increase in operating liabilities of Baht



8.84 million due to an increase in trade accounts payable, other accounts payable, other current liabilities and provision for long-term employee benefits; (E) An interest received of Baht 0.07 million; (F) An interest expense of Baht 27 million, and (G) Corporate income tax expense of Baht 36.57 million.

(2) The Company's net cash used in investment activities in the first 9-month period of 2019 was Baht 217.93 million, consisting of; (A) Industrial crop seedling purchase and cost of planting was Baht 1.29 million; (B) The construction cost of the Wastewater Evaporation Plant at Baht 129.01 million; (C) Deferred assets selling by Baht 1.79 million, and (D) Other expenses by Baht 89.42 million.

(3) The Company's net cash used in financing activities in the first 9 month period of 2019 was Baht 696.65 million consisting of : (A) Repayment of short-term loan of Baht 382.72 million, (B) An increase in long-term loan by Baht 37.98 million, (C) Dividend payment of Baht 349.97 million, and (D) Repayment under financial lease of Baht 1.94 million.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The total debt to equity ratio of the Company as at September 30, 2019 was as low as 0.85:1.

(2) The current ratio and quick ratio of the Company as at September 30, 2019 were 0.64 times and 0.26 times, respectively, which is low but the Company have remaining inventories that can be easily exchanged to cash and the trade accounts receivable is the major fuel company that have stable financial situation. In addition, the Company has cash generation and adequate credit line for working in the future project with good support from financial institution.

(3) The cash cycle of the Company in the first 9-month of 2019 was only 24.81 days, which increased from the end of year 2018 by 5.54 days. The average debt collection period was at 28.81 days, which decreased from the end of year 2018 by 0.94 days. The average inventory turnover was at 8.29 days, which increased from the end of year 2018 by 5.09 days, and the average debt repayment period was at 12.29 days, decreased from the end of year 2018 by 1.39 days.

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 2.50 times and debt service coverage ratio (DSCR) of no less than 1.10 time throughout the duration of loan



agreement. So far, the Company has been able to maintain the D/E and DSCR ratio as required by the contractual obligation of the loan without any default.

(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.

INVESTMENT PROJECT

At present, the EVAPORATOR SYSTEM FOR BIO METHANATED SPENT WASH 3,000 M³/DAY project is during the commissioning process. The project is an efficient long-term solution for treating wastewater, with all inherent positive environmental impact which complies with the Company's policy. Combined, the Evaporator condensate is a source of re-use water. Condensate recovery can reduce more than 90 percent of process water used in Ethanol production and excess electricity generated from the evaporation plant will be used in Ethanol production to save energy cost. Additionally, the Company will gain additional income from selling Potassium Humate, a by-product from evaporation process around 50,000 metric tons per year, which will generate more revenue and profit for the Company. It was expected to have commercial income in year 2020.

FUTURE TREND

The price of molasses, which is used as raw material of ethanol production, has been significantly lower in 2019. Consequently, the operating results of the Company in 2019 will be recorded a good level and very satisfactory. The Company will keep focus on maintain product quality and efficiently manage on production cost of ethanol production to have an excellent growth in operating results in the following year.