



THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE FINANCIAL STATEMENTS OF YEAR 2019



MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the Year 2019)

OVERALL OPERATING RESULTS

The Company's overall operating results of the year 2019 recorded as excellent and very satisfactory as the Company could earn highest net profit since the Company was founded for 15 years. The Company had net profit Baht 513.62 million, which increased from the previous year by 74.53 percent, generating a net profit at Baht 0.51 per share, which increased from the previous year by 75.86 percent due to the cost of molasses, the main raw material, which is a major cost decreased by 19.38 percent. Also, the ethanol production (YIELD) was considered at good level and the sales volume of ethanol slightly increased from the previous year by 1.03 percent. The Company had total revenue Baht 2,577.22 million, which decreased from the previous year by 4.47 percent due to the average selling price of ethanol decreased from the previous year by 7 percent.

Year	Total Revenue (Million Baht)	Net Profit (Loss) (Million Baht)	Proportion of Profit (Loss) to total revenue (%)
2005	485.61	47.68	9.82
2006	934.78	292.67	31.31
2007	644.32	147.47	22.89
2008	964.90	290.39	30.10
2009	678.07	207.88	30.66
2010	760.44	(94.52)	(12.43)
2011	1,098.81	(42.90)	(3.90)
2012	1,350.87	164.07	12.15
2013	1,659.75	117.68	7.09
2014	2,500.43	219.31	8.77
2015	2,602.57	244.27	9.39
2016	2,418.35	178.10	7.36
2017	2,472.76	48.86	1.97
2018	2,697.85	294.28	10.91
2019	2,577.22	513.62	19.93



REVENUE:

Details	Year 2019		Year 2018		Increase (Decrease)	
	Baht	%	Baht	%	Baht	%
	Million		Million		Million	
Sales Revenue	2,534.00	98.32	2,696.07	99.93	(162.07)	(6.01)
Other Revenue	43.22	1.68	1.78	0.07	41.44	2,328.09
Total Revenue	2,577.22	100.00	2,697.85	100.00	(120.63)	(4.47)

The Company's total revenue in year 2019 was Baht 2,577.22 million, decreased from the previous year by Baht 120.63 million or 4.47 percent, due to the following reasons.

- (1) The revenue from ethanol sales was Baht 2,534.00 million or 98.32 percent of total revenue, decreased by Baht 162.07 million or 6.01 percent from the previous year due to the decrease of the average ethanol selling price by 7.00 percent from the previous year but the ethanol sales volume increased from the previous year by 1.03 percent.
- (2) The other revenue was Baht 43.22 million or 1.68 percent of total revenue, increased by Baht 41.44 million or 2,328.09 percent from the previous year. This was due to the Company received compensation from the damage claims regarding to the flood that occurred in 2017.

EXPENSES:

Details	Year 2019		Year 2018		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	% Sale
Cost of sale	1,924.47	75.95	2,257.91	83.75	(333.44)	(14.77)
Selling and administrative expense	86.23	3.40	77.38	2.87	8.85	11.44
Financial cost	36.79	1.45	40.79	1.51	(4.00)	(9.81)
Corporate Income tax expense	16.11	0.64	27.49	1.02	(11.38)	(41.40)
Total Expenses	2,063.60	81.44	2,403.57	89.15	(339.97)	(14.14)

The Company's expenses in year 2019 was Baht 2,063.60 million, decreased from the previous year by Baht 339.97 million or 14.14 percent, due to the following reasons;

- (1) Cost of ethanol sales decreased from the previous year by Baht 333.44 million or 14.77 percent. This was due to the decrease in the average price of molasses which is main raw material of 19.38 percent, from the previous year as described above.
- (2) Selling and administrative expenses increased from the previous year by Baht 8.85 million or 11.44 percent. This was due to the increase of freight cost and employee benefits expense.



- (3) Finance expenses decreased from the previous year by Baht 4.00 million or 9.81 percent. This was due to the partial loan repayment.
- (4) Corporate income tax expenses decreased from the previous year by Baht 11.38 million or 41.40 percent due to the additional tax exemption for ethanol production line no. 1 from investment promotion for 3 years since March 18, 2018 as its efficiency was improved to reduce environment impact.

GROSS PROFIT:

Details	Year 2019		Year 2018	
	Baht Million	%	Baht Million	%
Revenue from sales	2,534.00	100.00	2,696.07	100.00
Less cost of sales	1,924.47	75.95	2,257.91	83.75
Gross Profit	609.53	24.05	438.16	16.25

The Company's gross profit in year 2019 was Baht 609.53 million or 24.05 percent of the sales revenue increased from the previous year which the gross profit was Baht 438.16 million or 16.25 percent of the revenue from sales. This was due to the increase of ethanol sales volume by 1.03 percent from the previous year and the decrease in the molasses price, which is the main raw material, by approximately 19.38 percent from the previous year.

NET PROFIT:

Details	Unit	Year 2019	Year 2018	Increase (Decrease)	%
NET PROFIT	Baht Million	513.62	294.28	219.34	74.53
NET PROFIT PER SHARE	Baht per Share	0.51	0.29	0.22	75.86
Remark: Registered per value of Baht 1 per share					

The Company's net profit in year 2019 was Baht 513.62 million which increased from the previous year by Baht 219.34 million or 74.53 percent, which accounts for net profit of Baht 0.51 per share. When compared with last year, the net profit increased by Baht 0.22 per share or 75.86 percent of the total revenues due to the reasons as described above.



EARNINGS EFFICIENCY

(1) EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) of the Company in 2019 was Baht 733.69 million, which increased from the previous year by Baht 211.72 million or 40.56 percent and EBITDA margin increased from 19.35 percent in the previous year to 28.47 percent this year.

(2) Net profit margin of 2019 increased from 10.91 percent in the previous year to 19.93 percent this year.

(3) Return on equity of the Company in 2019 was at 27.70 percent, which increased from the end of year 2018 by 10.39 percent.

(4) Return on total assets of the Company in 2019 increased from 8.91 percent in the previous year to 12.99 percent this year. The return on fixed assets in 2019 increased from 17.60 percent in the previous year to 24.39 percent this year.

STATEMENT OF FINANCIAL POSITION:

Details	Unit	As at December 31, 2019	As at December 31, 2018	Increase (Decrease)	%
Total Assets	Baht Million	4,136.63	3,772.27	364.36	9.66
Total Liabilities	Baht Million	2,200.80	2,000.07	200.73	10.04
Total Shareholder's Equity	Baht Million	1,935.83	1,772.20	163.63	9.23
Book Value	Baht per Share	1.94	1.77	0.17	9.60
Remark: Registered per value of Baht 1 per share					

ASSETS: The Company's total assets as at December 31, 2019 increased from the end of year 2018 by Baht 364.36 million or 9.66 percent. The total assets consisting of:

(1) Current Assets increased from the end of 2018 by Baht 293.15 million or 29.03 percent, due to (A) Cash and cash equivalent decreased by Baht 6.75 million or 20.97 percent; (B) Trade accounts receivable and other receivables decreased by Baht 75.58 million or 27.39 percent; (C) Inventories, most of which were molasses, increased by Baht 282.88 million or 199.76 percent; (D) Advances payment for raw materials purchasing increased by Baht 57.43 million or 10.54 percent, and (F) Other current assets increased by Baht 35.17 million or 235.57 percent.

(2) Non-Current Assets increased from the end of year 2018 by Baht 71.21 million or 2.58 percent, consisting of: (A) Construction cost of the Wastewater Evaporation Plant increased by Baht 69.96 million or 2.54 percent; (B) Biological assets increased by Baht 1.96 million or 100 percent; (C) Other non-current assets decreased by Baht 0.71 million or 10.99 percent.



LIABILITIES: The Company's total liabilities as at December 31, 2019 increased from the year end 2018 by Baht 200.73 million or an increase of 10.04 percent, consisting of: (A) Trade accounts payable and other accounts payable, most of which were raw materials purchasing, increased by Baht 15.48 million or 10.64 percent. (B) Short term and long term loans which mostly for raw material supply and the construction of the Wastewater Evaporation Plant, increased by Baht 192.72 million or 10.69 percent, and (C) Other liabilities, most of which were remaining corporate income tax decreased by Baht 7.47 million or 14.41 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at December 31, 2019 increased from the year end 2018 by Baht 163.63 million or 9.23 percent, the share's book value increased from Baht 1.77 per share to Baht 1.94 per share, due to the increase of net profit as described above.

CASH FLOWS

Details	(Unit: Baht Million)	
	Year 2019	Year 2018
Cash Flows from (used in) Operating Activities	419.63	(143.26)
Cash Flows from (used in) Investing Activities	(266.23)	(492.38)
Cash Flows from (used in) Financing Activities	(160.15)	632.52
Net Increase (Decrease) in Cash	(6.75)	(3.12)
Cash remaining at the Beginning of the Period	32.19	35.31
Cash at the End of the Period	25.44	32.19

(1) The Company's net cash used in operating activities in 2019 was Baht 419.63 million, consisting of: (A) Profit before corporate income tax was Baht 529.73 million; (B) Non-cash items such as depreciation was Baht 206.11 million; (C) An increase in operating assets of Baht 302.17 million due to an increase in trade and other receivables and inventories and advance payments for purchase of goods; (D) An increase in operating liabilities of Baht 59.00 million due to an increase in trade accounts payable, other accounts payable, other current liabilities and provision for employee benefits; (E) An interest received was Baht 0.12 million; (F) An interest expense was Baht 36.59 million, and (G) Corporate income tax expense was Baht 36.57 million.

(2) The Company's net cash used in investment activities in 2019 was Baht 266.23 million, consisting of; (A) The construction cost of the Wastewater Evaporation Plant and other assets purchasing increased by Baht 266.06 million; (B) Revenue from deferred assets selling was Baht 1.79 million, and (C) Other miscellaneous items increased by Baht 1.96 million.



(3) The Company's net cash used in financing activities in 2019 was Baht 160.15 million consisting of : (A) Received of short-term loan increased by Baht 216.58 million, (B) Repayment of long-term loan was Baht 24.02 million; (C) Repayment under financial lease was Baht 2.76 million, and (D) Dividend payment was Baht 349.97 million.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The current ratio and quick ratio of the Company as at December 31, 2019 were 0.75 times and 0.13 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.

(2) The total debt to equity ratio of the Company as at December 31, 2019 was 1.14:1 times.

(3) The cash cycle of the Company in 2019 was 20.57 days, which increased from the previous year by 1.30 days. The average debt collection period was 30.53 days, which increased from the previous year by 0.78 days. The average inventory turnover was at 7.57 days, which increased from the previous year by 4.37 days, and the average debt repayment period was at 17.53 days, increased from the previous year by 3.85 days.

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 2.50 times and debt service coverage ratio (DSCR) of no less than 1.10 times in next year until the end of loan agreement. The Company was able to maintain the D/E ratio and DSCR as required by the contractual obligation of the loan.

(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. Accordingly, Lanna has no plan 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, if the Company cannot comply with the conditions as stipulated within the loan agreement, such as the maintaining of D/E ratio, DSCR, and maintaining of shareholding proportion of Lanna in the Company, etc. Accordingly, the Company has never overdue payment or breached the conditions of loan agreements and has been provided with good financial support from lending banks.



FUTURE PROJECT

At present, the EVAPORATOR SYSTEM FOR BIO METHANATED SPENT WASH 3,000 M³ PER DAY project is during construction and prepare for 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 get a by-product, Potassium Humate, around 50,000 metric tons per year which can be sold to generate more revenue and profit in the future.

FUTURE TREND

The trend of domestic and world sugar prices in 2020 increase extremely due to sugarcane productivity is very lower than the previous year because of the drought, which will effect to the increase of molasses price, the main raw material for ethanol production, as a by-product of sugar production process. However, the Company is able to supply other raw materials to mix and/or use it in place of molasses. The Company will keep focus on maintain product quality and efficiently manage on production cost to have a continuous excellent operating results in year 2020 and able to pay a dividend to shareholders regularly aligning with the determined policy.
