



**THAI AGRO ENERGY PUBLIC COMPANY LIMITED**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE OPERATING RESULTS OF**

**THE 3<sup>rd</sup> QUARTER OF 2017**

# THAI AGRO ENERGY PUBLIC COMPANY LIMITED

## MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 3<sup>rd</sup> Quarter of 2017 and the First 9-Months of 2017)

### OVERALL OPERATING RESULTS

The Company's revenue in the 3<sup>rd</sup> quarter 2017 and in the first 9-month period of 2017 were Baht 686.30 million and Baht 2,224.08 million, respectively, which increased from the same period last year by 17.07 and 15.94 percent. The net profit in the 3<sup>rd</sup> quarter 2017 and in the first 9-month period of 2017 were Baht 57.80 million and Baht 170.30 million, respectively, increased from the same period last year by 42.22 percent and 1.07 percent, This was due to the higher ethanol selling price.

While the sales volume of ethanol in the 3<sup>rd</sup> quarter 2017 and in the first 9-month period of 2017 increased from the same period last year by 3.86 and 3.49 percent, respectively, since the high demand of fuel consumption. In addition, the economic growth caused the gasohol demand of the first 8 months increased 3.60% from the same period last year.

The average selling price of the 3<sup>rd</sup> quarter 2017 and the first 9-month period of 2017 increased from the same period last year by 12.82 and 12.10 percent, respectively, This is due to molasses price increased comparing to the same period last year price.

### OPERATING RESULTS ANALYSIS

#### REVENUE

Revenue	Year 2017		Year 2016		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
<b>3<sup>rd</sup> quarter (July – September)</b>						
Sales Revenue	685.89	99.94	585.15	99.82	100.74	17.22
Other Revenue	0.41	0.06	1.07	0.18	(0.66)	(61.68)
<b>Total Revenue</b>	<b>686.30</b>	<b>100.00</b>	<b>586.22</b>	<b>100.00</b>	<b>100.08</b>	<b>17.07</b>
<b>9-Month Period (January – September)</b>						
Sales Revenue	2,222.65	99.94	1,916.01	99.88	306.64	16.00
Other Revenue	1.43	0.06	2.23	0.12	(0.80)	(35.87)
<b>Total Revenue</b>	<b>2,224.08</b>	<b>100.00</b>	<b>1,918.24</b>	<b>100.00</b>	<b>305.84</b>	<b>15.94</b>

1. The Company's revenue in the 3<sup>rd</sup> quarter 2017 amount to Baht 686.30 million, an increase from the same period last year by Baht 100.08 million or 17.07 percent, due to the following reasons.
  - (1) The revenue from ethanol sales was Baht 685.89 million or 99.94 percent of total revenue, increased from the same period last year by Baht 100.74 million or 17.22 percent due to the increase in ethanol selling price and ethanol sales volume.
  - (2) The other revenue was Baht 0.41 million or 0.06 percent of total revenue, decreased from the same period of last year by Baht 0.66 million or 61.68 percent. This was due to the decrease in revenue from the sale of Fusel oil.
  
2. The company's revenue in the first 9-month period of 2017 amount to Baht 2,224.08 million, an increase from the same period of last year by Baht 305.84 million or 15.94 percent, due to the following reasons.
  - (1) The revenue from ethanol sales totaled Baht 2,222.65 million or 99.94 percent of total revenue, increased from the same period of last year Baht 306.64 million or 16.00 percent, resulted from the increase in ethanol selling price and ethanol sales volume.
  - (2) The other revenue was Baht 1.43 million or 0.06 percent of total revenue, decreased from the same period of last year by Baht 0.80 million or 35.87 percent. This was due to the decrease in revenue from the sale of Fusel oil.

## EXPENSES

Expenses	Year 2017		Year 2016		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	%
<b>3<sup>rd</sup> quarter (July – September)</b>						
Cost of sales	609.99	88.93	524.45	89.63	85.54	16.31
Selling and administrative expense	13.17	1.92	11.59	1.98	1.58	13.63
Financial cost	7.51	1.09	8.25	1.41	(0.74)	(8.97)
Income tax expense	(2.17)	(0.32)	1.29	0.22	(3.46)	N/A
<b>Total Expenses</b>	<b>628.50</b>	<b>91.63</b>	<b>545.58</b>	<b>93.24</b>	<b>82.92</b>	<b>15.20</b>
<b>9-Month Period (January – September)</b>						
Cost of sales	1,978.48	89.01	1,664.83	86.89	313.65	18.84
Selling and administrative expense	42.37	1.91	42.46	2.22	(0.09)	(0.21)
Financial cost	26.36	1.19	29.08	1.52	(2.72)	(9.35)
Income tax expense	6.57	0.30	13.37	0.70	(6.80)	(50.86)
<b>Total Expenses</b>	<b>2,053.78</b>	<b>92.40</b>	<b>1,749.74</b>	<b>91.32</b>	<b>304.04</b>	<b>17.38</b>

1. The Company's expenses in the 3<sup>rd</sup> quarter of 2017 was Baht 628.50 million, an increase from the same period last year by Baht 82.92 million or 15.20 percent, due to the following reasons.
  - (1) Cost of sales increased from the same period last year by Baht 85.54 million or 16.31 percent. This was due to the higher raw material prices than the same period last year.
  - (2) Selling and administrative expenses increased from the same period of last year by Baht 1.58 million or 13.63 percent. This was due to the increase of administration expenses.
  - (3) Financial cost in the 3<sup>rd</sup> of quarter 2017 decreased from the same period last year by Baht 0.74 million or 8.97 percent. This was due to short term and long term loan repayment.
  - (4) In the 3<sup>rd</sup> quarter of 2017, there was no corporate income tax on profits from production line No.2. However, corporate income tax amount to Baht 3.46 million was paid for production line No. 1.
  
2. The Company's expenses in the first 9-month period of 2017 totaled Baht 2,053.78 million, an increase from the same period last year by Baht 304.04 million or 17.38 percent, due to the following reasons.
  - (1) Cost of sales increased from the same period last year by Baht 313.65 million or 18.84 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 0.09 million or 0.21 percent. This was due to the decrease in cost of transportation.
  - (3) Financial cost decreased from the same period of last year by Baht 2.72 million or 9.35 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 9-month period for production line No.2 was exempted. However corporate income tax for production line No.1 amount to Baht 6.80 million or 50.86 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>3<sup>rd</sup> quarter (July – September)</b>				
Revenues from sales	685.89	100.00	585.15	100.00
Less cost of sales	609.99	88.93	524.45	89.63
<b>Gross Profit</b>	<b>75.90</b>	<b>11.07</b>	<b>60.70</b>	<b>10.37</b>
<b>9-Month Period (January – September)</b>				
Revenues from sales	2,222.65	100.00	1,916.01	100.00
Less cost of sales	1,978.48	89.01	1,664.83	86.89
<b>Gross Profit</b>	<b>244.17</b>	<b>10.99</b>	<b>251.18</b>	<b>13.11</b>

1. The Company's gross profit in the 3<sup>rd</sup> quarter of 2017 was Baht 75.90 million, or 11.07 percent of the revenue from sales. When compared with the gross profit of the same period last year of Baht 60.70 million or 10.37 percent of the revenue from sales. The gross profit and profit margin increased due to the increase in ethanol selling cost as described above.
2. The Company's gross profit in the first 9-month period of 2017 was Baht 244.17 million, or 10.99 percent of sales revenue while gross profit of the same period last year was 251.18 million or 13.11 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><u>3<sup>rd</sup> quarter (July – September)</u></b>				
EBITDA	100.84	82.06	18.78	22.89
EBITDA MARGIN (%)	14.69	14.00	0.69	-
<b><u>9-Month Period (January – September)</u></b>				
EBITDA	310.33	304.04	6.29	2.07
EBITDA MARGIN (%)	13.95	15.85	(1.90)	-

- (1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the 3<sup>rd</sup> quarter 2017 was Baht 100.84 million, an increase from the same period last year by 22.89 percent. The Company's EBITDA MARGIN in the 3<sup>rd</sup> quarter of 2017 was 14.69 percent an increase by 0.69 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 9-month period of 2017 was Baht 310.33 million, an increase from the same period last year by 2.07 percent. The Company's EBITDA MARGIN in first 9-month period of 2017 was 13.95 percent a decrease by 1.90 percent from the same period last year for the reasons explained above.

#### NET PROFIT

Net Profit	Year 2017	Year 2016	Increase/ (Decrease)	%
<b><u>3<sup>rd</sup> quarter (July – September)</u></b>				
Net Profit	57.80	40.64	17.16	42.22
NET PROFIT PER SHARE (Baht)	0.06	0.04	0.02	50.00
NET PROFIT MARGIN (%)	8.42	6.93	1.49	-
<b><u>9-Month Period (January – September)</u></b>				
Net Profit	170.30	168.50	1.80	1.07
NET PROFIT PER SHARE (Baht)	0.17	0.17	-	-
NET PROFIT MARGIN (%)	7.66	8.78	(1.12)	-
Remark Registered par value of Baht 1 per share				

- (1) The Company's net profit in the 3<sup>rd</sup> quarter of 2017 was Baht 57.80 million generating a net earnings at Baht 0.06 per share. When compared to the same period last year, the net profit increased by 42.22 percent, due to the increase in sale revenue as described above. The Company's Net Profit Margin in the 3<sup>rd</sup> quarter 2017 was 8.42 percent of total revenue, increased from the same period last year by 1.49 percent.
- (2) The Company's net profit in the first 9-month period of 2017 was Baht 170.30 million or net earnings of Baht 0.17 per share. When compared to the same period last year, the net profit increased by 1.07 percent, due to the increase in sale revenue as described above. The Company's net profit margin in the first 9-month period of 2017 was 7.66 percent of the sales revenue, a decrease from the same period last year by 1.12 percent

#### STATEMENT OF FINANCIAL POSITION

Financial Position (Unit: Million Baht)	As at September 30, 2017	As at December 31, 2016	Increase / (Decrease)	%
Total Assets	2,774.71	3,225.18	(450.47)	(13.97)
Total Liabilities	1,022.76	1,493.53	(470.77)	(31.52)
Total Shareholder's Equity	1,751.95	1,731.65	20.30	1.17
<b>Book Value-Baht per Share</b>	<b>1.75</b>	<b>1.73</b>	<b>0.02</b>	<b>1016</b>
<u>Remark:</u> Registered per value of Baht 1 per share				

#### ASSETS

The Company's total assets as at September 30, 2017 decreased from the year end of 2016 by Baht 450.47 million or a decrease of 13.97 percent. Total assets consist of:

- (1) Current assets decreased from the year end 2016 by Baht 481.52 million or 53.19 percent, which consist of (A) cash and cash equivalent decreased by Baht 25.60 million or 69.10 percent, (B) Current investments increased by Baht 0.06 million or 6.25 percent; (C) Trade accounts receivable and other receivables increased by Baht 79.76 million or 48.18 percent; (D) Inventories decreased by Baht 15.87 million or 12.58 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 494.56 million or 90.98 percent, and (F) Other Current Assets decreased by Baht 25.31 million or 79.12 percent.
- (2) Non-Current Assets increased from year end 2016 by Baht 31.05 million or 1.34 percent, consisting of: (A) land, plant, and equipment increased by Baht 30.86 million or 1.33 percent; (B) Other non-current assets increased by Baht 0.19 million or 3.44 percent.

## LIABILITIES

The Company's total liabilities as at September 30, 2017 decreased from the year end of 2016 by Baht 470.77 million or 31.52 percent, which consist of (1) Trade accounts payable and other accounts payable decreased by Baht 99.39 million or 54.51 percent, most of which were molasses expenses. (2) Short term and long term loans decreased by Baht 384.28 million or 29.92 percent, due to loan repayment. (3) Other liabilities increased by Baht 12.90 million or 48.12 percent.

## TOTAL SHAREHOLDERS' EQUITY

The total shareholders' equity of the Company as at September 30, 2017 increased from the end of 2016 by Baht 20.30 million or 1.17 percent, the share's book value increased from Baht 1.73 per share to Baht 1.75 per share, due to the increase of company's net profit.

## CASH FLOWS

Cash Flows	First nine months period (January – September)	
	Unit: Million Baht	
	Year 2017	Year 2016
Cash Flows from (used in) Operating Activities	673.15	690.41
Cash Flows from (used in) Investing Activities	(161.98)	(102.49)
Cash Flows from (used in) Financing Activities	(536.77)	(573.44)
Net Increase (Decrease) in Cash	(25.60)	14.48
Cash at the Beginning of the Period	37.05	9.10
<b>Cash at the End of the Period</b>	<b>11.45</b>	<b>23.58</b>

- (1) The Company's net cash from operating activities in the first 9-month period of 2017 was at Baht 673.15 million which consisting of (A) income before corporate income tax of Baht 176.86 million; (B) Non cash items such as the depreciation amounted to Baht 134.75 million; (C) an decrease in operating assets of Baht 458.31 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 59.97 million due to an increase 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 26.33 million, and (G) Corporate income tax at 10.55 million.
- (2) The Company's net cash used in investment activities in the first 9-month period of 2017 was Baht 161.98 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 2017 was Baht 536.77 million which include (A) short-term loan repayment at Baht 294.29 million, (B) long-term loan repayment at Baht 90.00 million (C) financial leases repayment at Baht 2.48 million, and (D) dividend payment at Baht 150.00 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**

In early October 2017, there was heavy and continuous rainfall that damaged the structure of the earthen dyke causing to give, thus resulting in the leak of treated vinasse overflowing into the residential and some agricultural areas around the factory. The Ministry of Industry had commanded the company to suspend factory production in order to repair the waste water treatment ponds to comply with the government regulations. It was expected that the company will be considered for the production permission by the end of November 2017. The company is assessing the damages for compensation according to the insurance policy. The incident affected and lowered the company fourth quarter of 2017 performance. However, the operating performance in 2017 is still showing profit but may be lower than last year due to the impact of floods as mentioned above.