



THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FINANCIAL STATEMENTS OF

THE 1st QUARTER 2019

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MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 1st Quarter 2019)

OVERALL OPERATING RESULTS

The overall operating results during the 1st quarter 2019 of the Company can be considered as excellent and very satisfactory. The Company had total revenue and net profit during the 1st quarter 2019 of Baht 754.10 million and Baht 181.46 million respectively, which increased from the same period last year by 24.28 percent and 181.42 percent respectively. This was due to the increase in ethanol sale volume from the same period last year by 39.50 percent and the price of molasses, the raw material, which is a major cost decreased from the same period last year by 27.41 percent in average.

OPERATING RESULTS ANALYSIS

REVENUE:

The Company's total revenue in the 1st quarter 2019 was Baht 754.10 million, increased from the same period last year by Baht 147.32 million or 24.28 percent, due to the following reasons.

- (1) The revenue from ethanol sales was Baht 753.41 million or 99.91 percent of total revenue, increased by Baht 147.13 million or 24.27 percent from the same period last year due to the increase of ethanol sales volume by 39.52 percent but the selling price decreased from last year by 10.91 percent in average.
- (2) The other revenue was Baht 0.69 million or 0.09 percent of total revenue, slightly increased by Baht 0.19 million or 38 percent from the same period last year. This was due to income from interest received.

Revenue	1 st quarter 2019		1 st quarter 2018		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Revenue from Ethanol Sales	753.41	99.91	606.28	99.92	147.13	24.27
Other Revenue	0.69	0.09	0.50	0.08	0.19	38.00
Total Revenue	754.10	100.00	606.78	100.00	147.32	24.28

EXPENSES:

The Company's expenses in the 1st quarter 2019 was Baht 572.64 million, increased by Baht 30.34 million or 5.59 percent from the same period last year, due to the following reasons;

- (1) Cost of ethanol sales increased by Baht 19.41 million or 3.81 percent from the same period last year. This was due to increases in ethanol sales volume of 39.52 percent from the same period last year as described above.
- (2) Selling and administrative expenses decreased by Baht 4.83 million or 22.52 percent from the same period last year and loss from flood event decreased from the same period last year by Baht 2.25 million or 100 percent, due to the compensation payment to the affected villagers from the flood incident that caused damage to the treated wastewater pond in 2017 has been made during the 1st quarter 2018.
- (3) Financial expenses increased from the same period last year by Baht 1.07 million or 12.62 percent. This was due to an adjustment of loan interest from financial policy by Bank of Thailand.
- (4) Corporate income tax increased by Baht 16.94 million from the same period last year due to the increase in profit.

Expenses	1 st quarter 2019		1 st quarter 2018		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	% Sale
Cost of sale	528.53	70.15	509.12	83.97	19.41	3.81
Selling and administrative expense	16.62	2.21	21.45	3.54	(4.83)	(22.52)
Loss from flood event	-	-	2.25	0.37	(2.25)	(100.0)
Financial cost	9.55	1.27	8.48	1.40	1.07	12.62
Corporate income tax	17.94	2.38	1.00	0.16	16.94	N/A
Total Expenses	572.64	76.01	542.30	89.44	30.34	5.59

GROSS PROFIT:

The Company's gross profit in the 1st quarter 2019 was Baht 224.88 million or 29.85 percent of the sales revenue, which increased from the same period last year with the gross profit of Baht 97.16 million or 16.03 percent of the sales revenue. This was due to the increase of ethanol sales volume by 39.52 percent from last year and the decrease in the molasses price which is the major cost, by approximately 27.41 percent from the same period last year.

Gross Profit	1 st quarter 2019		1 st quarter 2018	
	Baht Million	%	Baht Million	%
Revenues from Sales	753.41	100.00	606.28	100.00
<u>Less</u> Cost of Sales	528.53	70.15	509.12	83.97
Gross Profit	224.88	29.85	97.16	16.03

NET PROFIT:

The Company's net profit in the 1st quarter 2019 was Baht 181.46 million which increased from the same period last year by Baht 116.98 million or 181.42 Percent, which accounts for net profit of Baht 0.18 per share. When compared with the same period last year, the net profit increased by Baht 0.12 per share or 200 percent. The reason is as described above.

NET PROFIT & NET PROFIT MARGIN	Unit	1 st quarter 2019	1 st quarter 2018	Increase (Decrease)	%
NET PROFIT	Million Baht	181.46	64.48	116.98	181.42
NET PROFIT PER SHARE	Baht per Share	0.18	0.06	0.12	200.00
Remark: Registered per 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 1st quarter 2019 was Baht 249.27 million, which increased from the same period last year by Baht 136.70 million or 121.44 percent and EBITDA margin was at 33.06 percent, which increased from the same period last year by 14.51 percent.
- (2) Net profit margin of the Company in the 1st quarter 2019 was at 24.06 percent, which increased from the same period last year by 13.43 percent.
- (3) Return on equity of the Company in the 1st quarter 2019 was at 22.08 percent, which increased from the same period last year by 4.77 percent.
- (4) Return on total assets of the Company in the 1st quarter 2019 was at 11.09 percent, which increased from the same period last year by 2.18 percent. The return on fixed assets in the 1st quarter 2019 was at 20.72 percent, which increased from the same period last year by 3.12 percent.

STATEMENT OF FINANCIAL POSITION

FINANCIAL POSITION	Unit	As at March 31, 2019	As at December 31, 2018	Increase (Decrease)	%
Total Assets	Million Baht	3,644.17	3,772.27	(128.10)	(3.40)
Total Liabilities	Million Baht	1,690.50	2,000.07	(309.57)	(15.48)
Total Shareholder's Equity	Million Baht	1,953.67	1,772.20	181.47	10.24
Book Value	Baht per Share	1.95	1.77	0.18	10.17
Remark: Registered per value of Baht 1 per share					

ASSETS: The Company's total assets as at March 31, 2019 decreased from the end of year 2018 by Baht 128.10 million or 3.40 percent. The total assets consisting of:

- (1) Current Assets decreased from the end of 2018 by Baht 139.56 million or 13.82 percent, due to (A) Trade accounts receivable and other receivables increased by Baht 14.90 million or 5.40 percent; (B) Inventories increased by Baht 120.90 million or 85.38 percent, most of which were molasses; (C) Cash and cash equivalent decreased by Baht 0.39 million or 1.21 percent; (D) Advances payment for purchase goods, most of which were molasses, decreased by Baht 273.71 million or an decrease of 50.21 percent, and (F) Other Current Assets decreased by Baht 1.26 million or an decrease of 8.44 percent.
- (2) Non-Current Assets increased from the end of year 2018 by Baht 11.46 million or 0.41 percent, consisting of: (A) land, plant and equipment increased by Baht 11.91 million or 0.43 percent; (B) Other non-current assets decreased by Baht 0.45 million or 6.97 percent.

LIABILITIES: The Company's Total Liabilities as at March 31, 2019 decreased from the end of year 2018 by Baht 309.57 million or 15.48 percent, consisting of: (A) Trade accounts payable and other accounts payable increased by Baht 26.90 million or 18.48 percent, most of which were molasses purchase. (B) Short term and long term loans which for raw material supply and the construction of the Wastewater Evaporation Plant, decreased by Baht 341.16 million or 18.93 percent, and (C) Other liabilities which most were remaining corporate income tax increased by Baht 4.69 million or 9.05 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at March 31, 2019 increased from the end of year 2018 by Baht 181.47 million or 10.24 percent, resulting in an increase of the share's book value from Baht 1.77 per share to Baht 1.95 per share due to an increase in net profit.

CASH FLOWS

Cash Flows	Unit: Million Baht	
	1 st quarter 2019	1 st quarter 2018
Cash Flows from (used in)Operating Activities	402.06	(360.60)
Cash Flows from (used in)Investing Activities	(60.50)	(106.02)
Cash Flows from (used in)Financing Activities	(341.95)	465.79
Net Increase (Decrease) in Cash	(0.39)	(0.83)
Cash at the Beginning of the Period	32.19	35.31
Cash at the End of the Period	31.80	34.48

- (1) The Company's net cash used in operating activities in the 1st quarter 2019 was Baht 402.06 million, consisting of: (A) profit before corporate income tax of Baht 199.40 million; (B) Non-cash items such as depreciation; Baht 50.00 million.(C) an decrease in operating assets of Baht 139.15 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 23.54 million due to an increase in trade accounts payable, other accounts payable, other current liabilities and provision for long-term employee benefits, and (E) interest expense by Baht 10.03 million.
- (2) The Company's net cash used in investment activities in the 1st quarter 2019 was Baht 60.50 million, consisting of : (A) The cost of construction of the Wastewater Evaporation Plant at Baht 48.09 million, and (B) other expenses by Baht 12.41 million.
- (3) The Company's net cash used in financing activities in the 1st quarter 2019 was Baht 341.95 million consisting of : (A) Repayment of short-term loan of Baht 379.55 million, (B) increase in long-term loan by Baht 38.35 million (C) financial leases repayment at Baht 0.75 million.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The total debt to equity ratio of the Company as at March 31, 2019 was as low as 0.87:1 with appropriate capital structure. Therefore, the Company should not have any problem.

(2) The current ratio and quick ratio of the Company as at March 31, 2019 were 0.78 times and 0.29 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 1st quarter 2019 was only 22.11 days, which increased from the end of year 2018 by 2.84 days. The average debt collection period was at 32.60 days, which increased from the previous year by 2.85 days. The average inventory turnover was at 3.27 days, which increased from the previous year by 0.07 days, and the average debt repayment period was at 13.76 days, increased from the previous year by 0.08 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.

UPCOMING INVESTMENT PROJECT

The Company is now proceed with the construction of the EVAPORATOR SYSTEM FOR BIO METHANATED SPENT WASH 3,000 M3/DAY which was expected to complete in the 2nd quarter of 2019. The investment in this 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 extra income from selling Potassium Humate fertilizer, a by-product from evaporation process around 50,000 metric tons per year.

IMPACT TO FUTURE OPERATIONS

The price of molasses, which is used as raw material of ethanol production, is projected to low in 2019 as per the trend of world sugar prices due to the oversupply of sugar. At the same time, the forecast amount of sugarcane that will supply to the mills for crushing is expected in high level close to 2018. Consequently, the operating results of the Company in 2019 will be recorded a good level as the operating results in 2018. The Company will keep focus on maintain product quality and efficiently manage on production cost to have an excellent growth in operating results in the following year.
