



THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FINANCIAL STATEMENTS OF THE 2nd QUARTER 2020



MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 2nd Quarter 2020)

OVERALL OPERATING RESULTS

The Company had total revenue in the 2nd quarter 2020 and the first 6-month period of 2020 of Baht 509.52 million and Baht 1,248.14 million, which decreased from the same period last year by 18.15 percent and 9.33 percent, respectively due to the decrease of ethanol sales volume from the same period last year by 25.02 percent and 13.87 percent, respectively. The Company had net profit during the 2nd quarter 2020 and the first 6-month period of 2020 of Baht 7.31 million and Baht 90.97 million, which decreased from the same period last year by 94.82 percent and 71.79 percent with net profit per share of Baht 0.01 and 0.09, which decreased from the same period last year by 92.86 percent and 71.88 percent, respectively, due to the drought that caused of the decrease of sugarcane entering the mills, combined the outbreak of Coronavirus disease (COVID-19) that resulted in the decrease of fuel demand due to reducing of interaction.

OPERATING RESULTS ANALYSIS

REVENUE:

Description	Year 2020		Year 2019		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
2nd quarter (April – June)						
Sales Revenue	509.04	99.91	620.52	99.69	(111.48)	(17.97)
Other Revenue	0.48	0.09	1.95	0.31	(1.47)	(75.38)
Total Revenue	509.52	100.00	622.47	100.00	(112.95)	(18.15)
6-Month Period (January – June)						
Sales Revenue	1,247.10	99.92	1,373.93	99.81	(126.83)	(9.23)
Other Revenue	1.04	0.08	2.64	0.19	(1.60)	(60.61)
Total Revenue	1,248.14	100.00	1,376.57	100.00	(128.43)	(9.33)

(1) The Company's total revenue in the 2nd quarter 2020 was Baht 509.52 million, which decreased from the same period last year by Baht 112.95 million or 18.15 percent, due to the following reasons.

(1.1) Revenue from ethanol sales in the 2nd quarter 2020 decreased by Baht 111.48 million or 17.97 percent from the same period last year due to the decrease in ethanol sales volume by 25.02 percent from the same period last year but the selling price increased from the same period last year by 7.57 percent in average.



(1.2) Other revenue in the 2nd quarter 2020 decreased by Baht 1.47 million or 75.38 percent from the same period last year. This was due to income from the sales of deferred assets in the 2nd quarter 2019 of Baht 1.33 million but there was no such income in the 2nd quarter 2020.

(2) The Company's revenue in the first 6-month period of 2020 was Baht 1,248.14 million, which decreased from the same period of last year by Baht 128.43 million or 9.33 percent, due to the following reasons.

(2.1) Revenue from ethanol sales in the first 6-month period of 2020 decreased from the same period of last year Baht 126.83 million or 9.23 percent due to the decrease of ethanol sales volume from the same period last year by 13.87 percent but the ethanol selling price increased from the same period last year by 4.40 percent in average.

(2.2) Other revenue in the first 6-month period of 2020 decreased from the same period of last year by Baht 1.60 million or 60.61 percent. This was due to income from the sales of deferred assets in the 2nd quarter 2019 of Baht 1.33 million but there was no such income in the 2nd quarter of 2020.

EXPENSES:

Description	Year 2020		Year 2019		Increase (Decrease)	
	Baht Million	% of Sales	Baht Million	% of Sales	Baht Million	%
2nd quarter (April – June)						
Cost of sales	453.40	89.07	450.67	72.63	2.73	0.61
Selling and administrative expense	27.64	5.43	25.35	4.09	2.29	9.03
Financial cost	10.58	2.08	8.97	1.45	1.61	17.95
Corporate income tax	10.59	2.08	(3.59)	(0.58)	14.18	(394.99)
Total Expenses	502.21	98.66	481.40	77.59	20.81	4.32
6-Month Period (January – June)						
Cost of sales	1,074.80	86.18	979.20	71.27	95.60	9.76
Selling and administrative expense	47.03	3.77	41.97	3.05	5.06	12.06
Financial cost	22.82	1.83	18.52	1.35	4.30	23.22
Corporate Income tax	12.52	1.00	14.35	1.04	(1.83)	(12.75)
Total Expenses	1,157.17	92.78	1,054.04	76.71	103.13	9.78



(1) The Company's expenses in the 2nd quarter 2020 to was Baht 502.21 million, which increased from the same period last year by Baht 20.81 million or 4.32 percent, due to the following reasons;

(1.1) Cost of ethanol sales in the 2nd quarter 2020 increased by Baht 2.73 million or 0.61 percent from the same period last year. This was due to increases in price of molasses which is raw material of 32.22 percent from the same period last year as described above.

(1.2) Selling and administrative expenses in the 2nd quarter 2020 increased by Baht 2.29 million or 9.03 percent from the same period last year. This was due to increases in the operation expense of the EVAPORATOR SYSTEM FOR BIO METHANATED SPENT WASH 3,000 M³ PER DAY which is during commissioning process.

(1.3) Financial cost in the 2nd quarter 2020 increased by Baht 1.61 million or 17.95 percent from the same period last year. This was due to increases in short term loan for operation and partial of long term loan for the EVAPORATOR SYSTEM FOR BIO METHANATED SPENT WASH 3,000 M³ PER DAY construction and,

(1.4) Corporate income tax in the 2nd quarter 2020 increased by Baht 14.18 million or 394.99 percent from the same period last year due to the end of additional tax exemption for ethanol production line 2 from investment promotion.

(2) The Company's expenses in the first 6-month period of 2020 was Baht 1,157.17 million, which increased from the same period last year by Baht 103.13 million or 9.78 percent, due to the following reasons.

(2.1) Cost of ethanol sales in the first 6-month period of 2020 increased by Baht 95.60 million or 9.76 percent from the same period last year. This was due to the price of molasses, the raw material, which is a major cost increased from the same period last year by 30.30 percent in average as mentioned above.

(2.2) Selling and administrative expenses in the first 6-month period of 2020 increased by Baht 5.06 million or 12.06 percent from the same period last year. This was due to the operation expense of the EVAPORATOR SYSTEM FOR BIO METHANATED SPENT WASH 3,000 M³ PER DAY which is during commissioning process.

(2.3) Financial cost in the first 6-month period of 2020 increased by Baht 4.30 million or 23.22 percent from the same period of last year. This was due to the increase of short term loan for operation and partial of long term loan for the EVAPORATOR SYSTEM FOR BIO METHANATED SPENT WASH 3,000 M³ PER DAY construction and,

(2.4) Corporate Income tax expense in the first 6-month period of 2020 decreased by Baht 1.83 million or 12.75 percent from the same period last year due to additional tax exemption for ethanol production line no. 1 from investment promotion for 3 years since April 23, 2019 onwards, as its efficiency was improved to reduce environment impact.



GROSS PROFIT:

Description	Year 2020		Year 2019	
	Baht Million	%	Baht Million	%
2nd quarter (April – June)				
Revenues from sales	509.04	100.00	620.52	100.00
Less cost of sales	453.40	89.07	450.67	72.63
Gross Profit	55.64	10.93	169.85	27.37
6-Month Period (January – June)				
Revenues from sales	1,247.10	100.00	1,373.93	100.00
Less cost of sales	1,074.80	86.18	979.20	71.27
Gross Profit	172.30	13.82	394.73	28.73

(1) The Company's gross profit in the 2nd quarter of 2020 was Baht 55.64 million, or 10.93 percent of the revenue from sales, which decreased from the same period of last year which the gross profit was 169.85 million or 27.37 percent of the revenue from sales. This was due to the ethanol sales volume decreased from the same period last year by 25.02 percent and the average price of molasses, the raw material, which is a major cost increased from the same period last year by 32.22 percent.

(2) The Company's gross profit in the first 6-month period of 2020 was Baht 172.30 million, or 13.82 percent of sales revenue, which decreased from the same period of last year which the gross profit was 394.73 million or 28.73 percent of the revenue from sales. This was due to the decrease of ethanol sales volume from the same period last year by 13.87 percent and the average price of molasses, the raw material, which is a major cost increased from the same period last year by 30.30 percent.

NET PROFIT:

Description	Unit	Year 2020	Year 2019	Increase/ (Decrease)	%
2nd quarter (April – June)					
NET PROFIT	Million Baht	7.31	141.07	(133.76)	(94.82)
NET PROFIT PER SHARE	Baht per Share	0.01	0.14	(0.13)	(92.86)
6-Month Period (January – June)					
NET PROFIT	Million Baht	90.97	322.53	(231.56)	(71.79)
NET PROFIT PER SHARE	Baht per Share	0.09	0.32	(0.23)	(71.88)
Remark Registered par value of Baht 1 per share					



(1) The Company's net profit in the 2nd quarter of 2020 was Baht 7.31 million. When compared to the same period last year, the net profit decreased by Baht 133.76 million or 94.82 percent, generating a net earnings at Baht 0.01 per share which decreased from the same period last year by Baht 0.13 per share or 92.86 percent due to the reasons as described above.

(2) The Company's net profit in the first 6-month period of 2020 was Baht 90.97 million. When compared to the same period last year, the net profit decreased by Baht 231.56 million or 71.79 percent, generating a net earnings at Baht 0.09 per share which decreased from the same period last year by Baht 0.23 per share or 71.88 percent 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 the 2nd quarter 2020 was Baht 72.75 million, which decreased from the same period last year by Baht 115.04 million or 61.26 percent and EBITDA margin decreased from 30.17 percent in the 2nd quarter 2019 to 14.28 percent in the 2nd quarter 2020. While EBITDA of the Company in the first 6-month period of 2020 was Baht 214.34 million which decreased from the same period last year by Baht 222.72 million or 50.96 percent and EBITDA margin decreased from 31.75 percent in the first 6-month period of 2019 to 17.17 percent in the first 6-month period of 2020.

(2) Net profit margin of the Company decreased from 22.66 percent in the 2nd quarter 2019 to 1.43 percent in the 2nd quarter 2020. Net profit margin of the Company decreased from 23.43 percent in the first 6-month period of 2019 to 7.29 percent in the first 6-month of 2020.

(3) Return on equity of the Company decreased from 27.70 percent as at the end of 2019 to 14.80 percent as at the first 6-month period of 2020.

(4) Return on total assets of the Company decreased from 12.99 percent as at the end of 2019 to 7.10 percent in the first 6-month period of 2020. The return on fixed assets decreased from 24.39 percent as at the end of 2019 to 16.28 percent in the first 6-month of 2020.

STATEMENT OF FINANCIAL POSITION

FINANCIAL POSITION	Unit	As at June 30, 2020	As at December 31, 2019	Increase (Decrease)	%
Total Assets	Million Baht	3,803.67	4,136.63	(332.96)	(8.05)
Total Liabilities	Million Baht	1,926.87	2,200.80	(273.93)	(12.45)
Total Shareholder's Equity	Million Baht	1,876.80	1,935.83	(59.03)	(3.05)
Book Value	Baht per Share	1.88	1.94	(0.06)	(3.09)
Remark: Registered per value of Baht 1 per share					



ASSETS: The Company's total assets as at June 30, 2020 decreased from the end of year 2019 by Baht 332.96 million or 8.05 percent. The total assets consisting of:

(1) Current Assets decreased from the end of 2019 by Baht 308.21 million or 23.66 percent, due to (A) Cash and cash equivalent increased by Baht 0.39 million or 1.53 percent; (B) Inventories increased by Baht 266.48 million or 62.78 percent, most of which were molasses; (C) Trade accounts receivable and other receivables decreased by Baht 9.82 million or 4.90 percent; (D) Advances payment for purchase goods, most of which were molasses, decreased by Baht 522.36 million or 86.69 percent, and (F) Other current assets decreased by Baht 42.90 million or 85.63 percent.

(2) Non-Current Assets decreased from the end of year 2019 by Baht 24.75 million or 0.87 percent, consisting of: (A) Biological assets increased by Baht 2.13 million or 108.67 percent; (B) Right-of-use assets increased by Baht 28.55 million or 100 percent; (C) Land, plant and equipment decreased by Baht 54.80 million or 1.94 percent; and (D) Other non-current assets decreased by Baht 0.63 million or 10.96 percent.

LIABILITIES : The Company's total liabilities as at June 30, 2020 decreased from the end of year 2019 by Baht 273.93 million or 12.45 percent, due to (A) Other liabilities which most were liabilities under lease agreement and remaining corporate income tax increased by Baht 13.06 million or 29.43 percent; (B) Trade accounts payable and other accounts payable, most of which were raw material purchase, decreased by Baht 66.70 million or 41.42 percent, and (C) Short term and long term loans which were for raw material supply and the construction of the Wastewater Evaporation Plant, decreased by Baht 220.29 million or 11.04 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at June 30, 2020 decreased from the end of year 2019 by Baht 59.03 million or 3.05 percent, resulting in a decrease of the share's book value from Baht 1.94 per share to Baht 1.88 per share due to a decrease of net profit as described above.

CASH FLOWS

Description	First six months period (January – June)	
	Year 2020	Year 2019
Cash Flows from (used in)Operating Activities	434.39	663.47
Cash Flows from (used in)Investing Activities	(60.74)	(151.60)
Cash Flows from (used in)Financing Activities	(373.26)	(512.05)
Net Increase (Decrease) in Cash	0.39	(0.18)
Cash at the Beginning of the Period	25.44	32.19
Cash at the End of the Period	25.83	32.01



(1) The Company's net cash used in operating activities in the first 6-month period of 2020 was Baht 434.39 million, consisting of: (A) Profit before corporate income tax of Baht 103.49 million; (B) Non-cash items such as depreciation of Baht 111.71 million; (C) A decrease in operating assets of Baht 308.60 million due to a decrease in trade and other receivables and inventories and advance payments for purchase of molasses; (D) A decrease in operating liabilities of Baht 56.80 million due to a decrease in trade accounts payable, other accounts payable and provision for long-term employee benefits; (E) An interest received of Baht 0.04 million; (F) An interest expense of Baht 23.63 million, and (G) Corporate income tax expense of Baht 9.02 million.

(2) The Company's net cash used in investment activities in the first 6-month period of 2020 was Baht 60.74 million, consisting of : (A) The cost of seedlings purchase and cost of industrial crops planting of Baht 2.14 million; (B) Assets purchasing by Baht 58.55 million, and (C) Other miscellaneous items by Baht 0.05 million.

(3) The Company's net cash used in financing activities in the first 6 month period of 2020 was Baht 373.26 million consisting of : (A) Repayment of short-term loan of Baht 148.38 million, (B) Repayment of long-term loan by Baht 72 million, (C) Dividend payment of Baht 148.93 million, and (D) Repayment under financial lease of Baht 3.95 million.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The current ratio and quick ratio of the Company as at June 30, 2020 were 0.66 times and 0.14 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 June 30, 2020 was 1.03:1 times.

(3) The cash cycle of the Company in the 2nd quarter of 2020 was 22.43 days, which increased from the end of year 2019 by 1.86 days. The average debt collection period was 27.97 days, which decreased from the end of year 2019 by 2.56 days. The average inventory turnover was at 12.28 days, which increased from the end of year 2019 by 4.71 days, and the average debt repayment period was at 17.82 days, which increased from the end of year 2019 by 0.29 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.

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. Combined, the EVAPORATOR SYSTEM FOR BIO METHANATED SPENT WASH 3,000 M³ PER DAY project which is during 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. It was expected to have commercial income in the 4th quarter of 2020. 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.
