



THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FINANCIAL STATEMENTS OF THE 3rd QUARTER 2020



MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 3rd Quarter 2020)

OVERALL OPERATING RESULTS

The Company had total revenue in the 3rd quarter 2020 and the first 9-month period of 2020 Baht 657.96 million and 1,906.10 million, which decreased from the same period last year by 0.58 and 6.49 percent. This was due to the sales volume of ethanol decreased from the same period last year by 0.31 percent and 9.66 percent. The net profit of the 3rd quarter of 2020 and the first 9-month period of 2020 were Baht 10.20 million and 101.17 million, which decreased from the same period last year by 93.37 and 78.77 percent, generating a net earnings at Baht 0.01 per share and Baht 0.10 per share, which decreased from the same period last year by 93.33 percent and 79.17 percent due to the cost of molasses, the raw material, which is a major cost increased from the same period last year by 25.55 percent and 28.58 percent respectively, due to the drought that caused of the decrease of sugarcane entering the mills.

OPERATING RESULTS ANALYSIS

REVENUE:

Description	Year 2020		Year 2019		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
3rd quarter (July – September)						
Sales Revenue	657.39	99.91	621.24	93.87	36.15	5.82
Other Revenue	0.57	0.09	40.57	6.13	(40.00)	(98.60)
Total Revenue	657.96	100.00	661.81	100.00	(3.85)	(0.58)
9-Month Period (January – September)						
Sales Revenue	1,904.49	99.92	1,995.17	97.88	(90.68)	(4.54)
Other Revenue	1.61	0.08	43.21	2.12	(41.60)	(96.27)
Total Revenue	1,906.10	100.00	2,038.38	100.00	(132.28)	(6.49)

(1) The Company's revenue in the 3rd quarter 2020 totaled Baht 657.96 million, which decreased from the same period last year by Baht 3.85 million or 0.58 percent, due to the following reasons.

(1.1) Revenue from ethanol sales in the 3rd quarter 2020 increased by Baht 36.15 million or 5.82 percent from the same period last year due to increased of the average ethanol selling



price from the same previous last year by 6.13 percent although the sales volume slightly decreased from the same previous last year.

(1.2) Other revenue in the 3rd quarter 2020 decreased by Baht 40.00 million or 98.60 percent from the same period last year. This was due to the Company received compensation in the 3rd quarter 2019 from the insurance company regarding to the flood in 2017 but there was no such income in the 3rd quarter 2020.

(2) The Company's revenue in the first 9-month period of 2020 totaled Baht 1,906.10 million, which decreased from the same period of last year by Baht 132.28 million or 6.49 percent, due to the following reasons.

(2.1) Revenue from ethanol sales in the first 9-month period of 2020 decreased from the same period of last year Baht 90.68 million or 4.54 percent due to the decrease of ethanol sales volume from the same period last year by 9.66 percent.

(2.2) Other revenue in the first 9-month period of 2020 decreased from the same period of last year by Baht 41.60 million or 96.27 percent. This was due to the Company received compensation in the 3rd quarter 2019 from the insurance company regarding to the flood in 2017 but there was no such income in the 3rd quarter 2020.

EXPENSES:

Description	Year 2020		Year 2019		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	%
3rd quarter (July – September)						
Cost of sales	620.20	94.34	474.38	76.36	145.82	30.74
Selling and administrative expense	18.90	2.88	24.10	3.88	(5.20)	(21.58)
Financial cost	9.39	1.43	7.96	1.28	1.43	17.96
Corporate Income tax	(0.73)	(0.11)	1.45	0.23	(2.18)	(150.34)
Total Expenses	647.76	98.54	507.89	81.75	139.87	27.54
9-Month Period (January – September)						
Cost of sales	1,695.00	89.00	1,453.58	72.85	241.42	16.61
Selling and administrative expense	65.93	3.46	66.07	3.31	(0.14)	(0.21)
Financial cost	32.21	1.69	26.48	1.33	5.73	21.64
Corporate Income tax	11.79	0.62	15.80	0.79	(4.01)	(25.38)
Total Expenses	1,804.93	94.77	1,561.93	78.28	243.00	15.56



(1) The Company's expenses in the 3rd quarter 2020 totaled Baht 647.76 million, which increased from the same period last year by Baht 139.87 million or 27.54 percent, due to the following reasons;

(1.1) Cost of ethanol sales in the 3rd quarter 2020 increased from the same period last year by Baht 145.82 million or 30.74 percent. This was due to increases in the average price of molasses which is raw material of 25.55 percent, from the same period last year as described above.

(1.2) Selling and administrative expenses in the 3rd quarter 2020 decreased from the same period last year by Baht 5.20 million or 21.58 percent. This was due to the decrease of freight cost and employee wages.

(1.3) Financial cost in the 3rd quarter 2020 increased from the same period last year by Baht 1.43 million or 17.96 percent. This was due to the short term loan for operation and,

(1.4) Corporate income tax in the 3rd quarter 2020 decreased from the same period last year by Baht 2.18 million or 150.34 percent due to the decrease in operating results as described above.

(2) The Company's expenses in the first 9-month period of 2020 totaled Baht 1,804.93 million, increased from the same period last year by Baht 243.00 million or 15.56 percent, due to the following reasons.

(2.1) Cost of ethanol sales in the first 9-month period of 2020 increased from the same period last year by Baht 241.42 million or 16.61 percent. This was due to the price of molasses, the raw material, which is a major cost increased from the same period last year by 28.58 percent in average as described above.

(2.2) Selling and administrative expenses in the first 9-month of 2020 slightly decreased from the same period last year by Baht 0.14 million or 0.21 percent.

(2.3) Financial cost in the first 9-month of 2020 increased from the same period of last year by Baht 5.73 million or 21.64 percent. This was due to the increase of short loan for operating.

(2.4) Corporate Income tax in the first 9-month of 2020 expense decreased from the same period last year by Baht 4.01 million or 25.38 percent due to the 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	%
3rd quarter (July – September)				
Revenues from sales	657.39	100.00	621.24	100.00
Less cost of sales	620.20	94.34	474.38	76.36
Gross Profit	37.19	5.66	146.86	23.64
9-Month Period (January – September)				
Revenues from sales	1,904.49	100.00	1,995.17	100.00
Less cost of sales	1,695.00	89.00	1,453.58	72.85
Gross Profit	209.49	11.00	541.59	27.15

(1) The Company's gross profit in the 3rd quarter 2020 was Baht 37.19 million, or 5.66 percent of the revenue from sales, decreased from the same period of last year which the gross profit was 146.86 million or 23.64 percent of the revenue from sales. This was due to the average price of molasses, the raw material, which is a major cost increased from the same period last year by 25.55 percent and the ethanol sales volume decreased from the same period last year by 0.31 percent.

(2) The Company's gross profit in the first 9-month period of 2020 was Baht 209.49 million, or 11.00 percent of sales revenue, which decreased from the same period of last year which the gross profit was 541.59 million or 27.15 percent of the revenue from sales. This was due to the average price of molasses, the raw material, which is a major cost increased from the same period last year by 28.58 percent and the decrease of ethanol sales volume from the same period last year by 9.66 percent.

NET PROFIT:

Description	Unit	Year 2020	Year 2019	Increase/ (Decrease)	%
3rd quarter (July-September)					
NET PROFIT	Baht Million	10.20	153.92	(143.72)	(93.37)
NET PROFIT PER SHARE	Baht per Share	0.01	0.15	(0.14)	(93.33)
9-Month Period (January – September)					
NET PROFIT	Baht Million	101.17	476.45	(375.28)	(78.77)
NET PROFIT PER SHARE	Baht per Share	0.10	0.48	(0.38)	(79.17)
Remark Registered par value of Baht 1 per share					



(1) The Company's net profit in the 3rd quarter 2020 was Baht 10.20 million. When compared to the same period last year, the net profit decreased by Baht 143.72 million or 93.37 percent, generating a net earnings at Baht 0.01 per share which decreased from the same period last year by Baht 0.14 per share or 93.33 percent due to the reasons as described above.

(2) The Company's net profit in the first 9-month period of 2020 was Baht 101.17 million. When compared to the same period last year, the net profit decreased by Baht 375.28 million or 78.77 percent, generating a net earnings at Baht 0.10 per share which decreased from the same period last year by Baht 0.38 per share or 79.17 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 3rd quarter 2020 was Baht 63.01 million, which decreased from the same period last year by Baht 142.63 million or 69.36 percent and EBITDA margin decreased from 31.07 percent in the 3rd quarter 2019 to 9.58 percent in the 3rd quarter 2020. While EBITDA of the Company in the first 9-month period of 2020 was Baht 277.35 million which decreased from the same period last year by Baht 365.35 million or 56.85 percent and EBITDA margin decreased from 31.53 percent in the first 9-month period of 2019 to 14.55 percent in the first 9-month period of 2020.

(2) Net profit margin of the Company decreased from 23.26 percent in the 3rd quarter 2019 to 1.55 percent in the 3rd quarter 2020. Net profit margin of the Company decreased from 23.37 percent in the first 9-month period of 2019 to 5.31 percent in the first 9-month of 2020.

(3) Return on equity of the Company decreased from 27.70 percent as at the end of 2019 to 7.34 percent as at the first 9-month period of 2020.

(4) Return on total assets of the Company decreased from 12.99 percent as at the end of 2019 to 3.65 percent in the first 9-month period of 2020. The return on fixed assets decreased from 24.39 percent as at the end of 2019 to 11.15 percent in the first 9-month of 2020.

STATEMENT OF FINANCIAL POSITION

Description	Unit	As at September 30, 2020	As at December 31, 2019	Increase (Decrease)	%
Total Assets	Baht Million	3,451.56	4,136.63	(685.07)	(16.56)
Total Liabilities	Baht Million	1,619.56	2,200.80	(581.24)	(26.41)
Total Shareholder's Equity	Baht Million	1,832.00	1,935.83	(103.83)	(5.36)
Book Value	Baht per Share	1.83	1.94	(0.11)	(5.67)
Remark: Registered per value of Baht 1 per share					



ASSETS: The Company's total assets as at September 30, 2020 decreased from the end of year 2019 by Baht 685.07 million or 16.56 percent. The total assets consisting of:

(1) Current assets decreased from the end of 2019 by Baht 689.19 million or 52.90 percent, due to (A) Trade accounts receivable and other receivables increased by Baht 26.17 million or 13.06 percent; (B) Cash and cash equivalent decreased by Baht 11.04 million or 43.40 percent; (C) Inventories, most of which were molasses, decreased by Baht 135.27 million or 31.87 percent; (D) Advances payment for purchase goods, most of which were molasses, decreased by Baht 522.49 million or 86.71 percent, and (F) Other current assets decreased by Baht 46.56 million or 92.93 percent.

(2) Non-Current Assets increased from the end of year 2019 by Baht 4.12 million or 0.15 percent, consisting of: (A) Biological assets increased by Baht 3.19 million or 162.76 percent; (B) Right-of-use assets increased by Baht 26.05 million or 100 percent; (C) Land, plant and equipment decreased by Baht 24.57 million or 0.87 percent; and (D) Other non-current assets decreased by Baht 0.55 million or 9.57 percent.

LIABILITIES : The Company's total liabilities as at September 30, 2020 decreased from the end of year 2019 by Baht 581.24 million or 26.41 percent, due to (A) Other liabilities which most were liabilities under lease agreement increased by Baht 17.09 million or 38.51 percent; (B) Trade accounts payable and other accounts payable, most of which were raw material purchase, decreased by Baht 97.85 million or 60.77 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 500.48 million or 25.08 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at September 30, 2020 decreased from the end of year 2019 by Baht 103.83 million or 5.36 percent, resulting in a decrease of the share's book value from Baht 1.94 per share to Baht 1.83 per share due to the decrease of net profit as described above.

CASH FLOWS

Description	First 9-months period (January – September)	
	Year 2020	Year 2019
Cash Flows from (used in)Operating Activities	833.59	915.66
Cash Flows from (used in)Investing Activities	(134.16)	(217.93)
Cash Flows from (used in)Financing Activities	(710.47)	(696.65)
Net Increase (Decrease) in Cash	(11.04)	1.08
Cash at the Beginning of the Period	25.44	32.19
Cash at the End of the Period	14.40	33.27



(1) The Company's net cash used in operating activities in the first 9 month period of 2020 was Baht 833.59 million, consisting of: (A) Profit before corporate income tax of Baht 112.96 million; (B) Non-cash items such as depreciation of Baht 165.29 million; (C) A decrease in operating assets of Baht 678.16 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 76.22 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 33.09 million, and (G) Corporate income tax expense of Baht 13.55 million.

(2) The Company's net cash used in investment activities in the first 9 month period of 2020 was Baht 134.16 million, consisting of: (A) The cost of seedlings purchase and cost of industrial crops planting of Baht 3.20 million; (B) Assets purchasing by Baht 131.83 million; (C) Other miscellaneous items by Baht 0.07 million, and (D) Receipts from equipment selling by Baht 0.94 million.

(3) The Company's net cash used in financing activities in the first 9 month period of 2020 was Baht 710.47 million consisting of : (A) Repayment of short-term loan of Baht 428.62 million, (B) Repayment of long-term loan by Baht 72 million, (C) Dividend payment of Baht 203.93 million, and (D) Repayment under financial lease of Baht 5.92 million.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The current ratio and quick ratio of the Company as at September 30, 2020 were 0.51 times and 0.20 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 September 30, 2020 was 0.88:1 times.

(3) The cash cycle of the Company in the first 9 month period of 2020 was 22.87 days, which increased from the end of year 2019 by 2.30 days. The average debt collection period was 29.98 days, which decreased from the end of year 2019 by 0.55 days. The average inventory turnover was at 7.07 days, which decreased from the end of year 2019 by 0.50 days, and the average debt repayment period was at 14.18 days, which decreased from the end of year 2019 by 3.35 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.