



**THAI AGRO ENERGY PUBLIC COMPANY LIMITED**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE OPERATING RESULTS OF**

**THE 2<sup>nd</sup> QUARTER 2015**

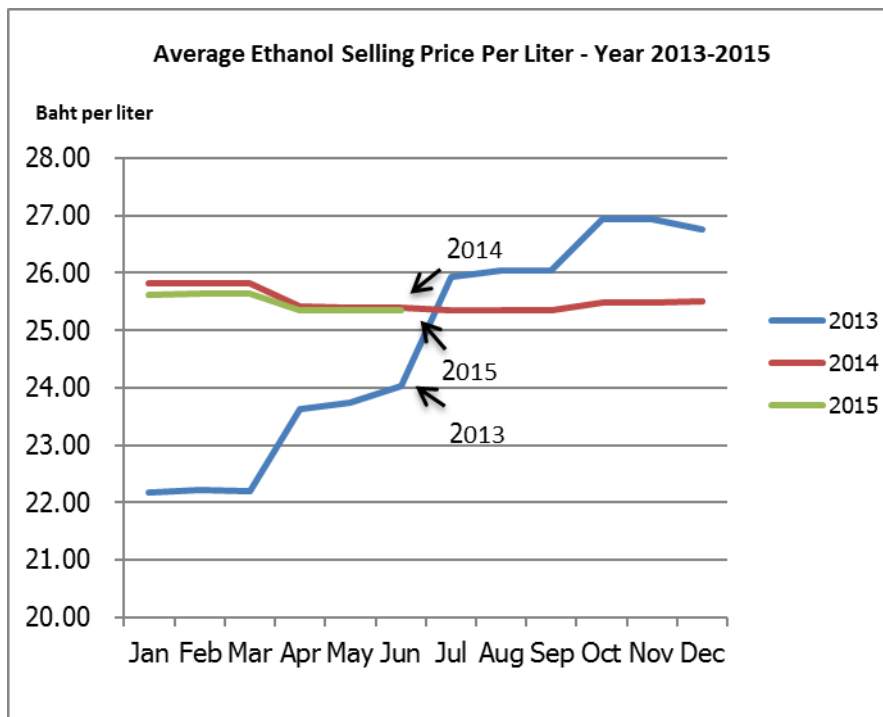
# THAI AGRO ENERGY PUBLIC COMPANY LIMITED

## MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 2<sup>nd</sup> Quarter 2015 and the First 6-Months of 2015)

### OVERALL OPERATING RESULTS

The Company's revenue in the 2<sup>nd</sup> quarter 2015 and in the first 6-month period of 2015 were Baht 669.23 million and Baht 1,363.53 million, respectively, which increased from the same period last year by 11.11 and 10.50 percent. The net profit in the 2<sup>nd</sup> quarter 2015 and the first 6-month period of 2015 were Baht 58.71 million and Baht 175.94 million, respectively, which increased from the same period of last year by 4.91 and 11.24 percent. This was due to an increase in ethanol sales volume and the price in accordance with a continuous increase in the domestic ethanol demand due to the termination of Gasoline 91 and promotion of the production of automobiles that use Gasohol E20 as well as E85 by the government, Therefore, the revenue and net profit from ethanol business thus increased significantly.



The average ethanol selling price in the 2<sup>nd</sup> Quarter 2015 and the first 6-month period of year 2015 decreased from the same period of last year by 0.20 and 0.47 percent respectively, According to the decrease in oil prices. The ethanol sales volume in the 2<sup>nd</sup> Quarter 2015 and the first 6-month period of 2015 increased from the same period of last year by 11.51 and 11.10 percent, Also, the average domestic demand of ethanol increased from 3.24 million liters per day in late 2014 to 3.56 million liters per day in June 2015 or increased 9.88 percent. This was due to since Gasohol consumption E10 (Gasohol 91 and 95) and E20 increasing continuously, Therefore the demand for using ethanol as a mixture in gasohol has been increasing continuously. While the demand for gasohol E85 decreased, due to crude oil prices are low, resulting in the difference between the price of gasoline and gasohol E85 does not incentivize consumers to choose.

## OPERATING RESULTS ANALYSIS

Revenue	Year 2015		Year 2014		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
<b>2<sup>nd</sup> quarter (April – June)</b>						
Sales Revenue	668.69	99.92	600.92	99.77	67.77	11.28
Other Revenue	0.54	0.08	1.40	0.23	(0.86)	(61.43)
<b>Total Revenue</b>	<b>669.23</b>	<b>100.00</b>	<b>602.32</b>	<b>100.00</b>	<b>66.91</b>	<b>11.11</b>
<b>6-Month Period (January – June)</b>						
Sales Revenue	1,362.46	99.924	1,232.03	99.84	130.43	10.59
Other Revenue	1.07	0.08	1.92	0.16	(0.85)	(44.27)
<b>Total Revenue</b>	<b>1,363.53</b>	<b>100.00</b>	<b>1,233.95</b>	<b>100.00</b>	<b>129.58</b>	<b>10.50</b>

## REVENUE

- (1) The Company's total revenue in the 2<sup>nd</sup> quarter 2015 totaled Baht 669.23 million, which increased from the same period last year by Baht 66.91 million or 11.11 percent. This was due to the revenue from ethanol sales was Baht 668.69 million or 99.92 percent of total revenue, increased from the same period of last year Baht 67.77 million or 11.28 percent, since the ethanol sales volume and selling price were increased as mentioned above. The other revenue was Baht 0.54 million or 0.08 percent of total revenue, decreased from the same period of last year by Baht 0.86 million or 61.43 percent.
- (2) The company's revenue in the first 6-month period of 2015 totaled Baht 1,363.53 million, increased from the same period of last year Baht 129.58 million or 10.50 percent, due to revenue from ethanol sales totaled Baht 1,362.46 million or 99.92 percent of total revenue, increased from the same period of last year Baht 130.43 million or 10.59 percent, since the ethanol sales volume and selling price were increased as mentioned above. The other revenue was Baht 1.07 million or 0.08 percent of total revenue, decreased from the same period of last year by Baht 0.85 million or 44.27 percent.

Expenses	Year 2015		Year 2014		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	%
<b>2<sup>nd</sup> quarter (April – June)</b>						
Cost of sale	578.79	86.56	513.33	85.42	65.46	12.75
Selling and administrative expense	18.45	2.76	17.66	2.94	0.79	4.47
Financial cost	13.28	1.99	15.37	2.56	(2.09)	(13.60)
<b>Total Expenses</b>	<b>610.52</b>	<b>91.30</b>	<b>546.36</b>	<b>90.92</b>	<b>64.16</b>	<b>11.74</b>
<b>6-Month Period (January – June)</b>						
Cost of sale	1,121.53	82.32	1,017.30	82.57	104.23	10.25
Selling and administrative expense	37.73	2.77	27.69	2.25	10.04	36.26
Financial cost	28.33	2.08	30.80	2.50	(2.47)	(8.02)
<b>Total Expenses</b>	<b>1,187.59</b>	<b>87.17</b>	<b>1,075.79</b>	<b>87.32</b>	<b>111.80</b>	<b>10.39</b>

## EXPENSES

- (1) The Company's expenses in the 2<sup>nd</sup> quarter 2015 totaled Baht 610.52 million, which increased from the same period of last year Baht 64.16 million or 11.74 percent, due to the following reasons.
  - (1.1) Cost of ethanol sales increased from the same period of last year by Baht 65.46 million or 12.75 percent. This was due to increases in molasses (raw material) price, which is a major cost, from the same period of last year by 4.40 percent.
  - (1.2) Selling and administrative expenses increased from the same period of last year by Baht 0.79 million or 4.47 percent. This was due to the increase in number of staffs by organizational structure changes for business expansion in the future.
  - (1.3) Financial expenses decreased from the same period of last year by Baht 2.09 million or 13.60 percent due to short term and long term loans engaged, resulting in an decrease in interest expense.
  - (1.4) Profit from ethanol business in the 2<sup>nd</sup> quarter 2015 for production line No.2, there was no corporate income tax on the earnings from the ethanol business, having received the Board of Investment Promotion, B.E. 2520. But corporate income tax for production line No.1 decreased Baht 0.41 million since the investment promotion has expired already.
  
- (2) The Company's expenses in the first 6-month period of 2015 totaled Baht 1,187.59 million, which increased from the same period last year Baht 111.80 million or 10.39 percent, due to the following reasons.
  - (2.1) Cost of ethanol sales increased from the same period of last year by Baht 104.23 million or 10.25 percent. This was due to increases in molasses (raw material) price, which is a major cost, from the same period last year by 4.31 percent.
  - (2.2) Selling and administrative expenses decreased from the same period of last year by Baht 10.04 million or 36.26 percent. This was due to the increase in number of staffs by organizational structure changes for business expansion in the future.
  - (2.3) Financial expenses decreased from the same period of last year by Baht 2.47 million or 8.02 percent due to short term and long term loans engaged, resulting in an decrease in interest expense.
  - (2.4) Profit from ethanol business in the first 6-month period of 2015 for production line No.2, there was no corporate income tax on the earnings from the ethanol business, having received the Board of Investment Promotion, B.E. 2520. But corporate income tax for production line No.1 increased Baht 8.48 million since the investment promotion has expired already.

Gross profit	Year 2015		Year 2014	
	Baht Million	%	Baht Million	%
<b>2<sup>nd</sup> quarter (April – June)</b>				
Revenues from sales	668.69	100.00	600.92	100.00
Less cost of sales	578.79	86.56	513.33	85.42
<b>Gross Profit</b>	<b>89.90</b>	<b>13.44</b>	<b>87.59</b>	<b>14.58</b>
<b>6-Month Period (January – June)</b>				
Revenues from sales	1,362.46	100.00	1,232.03	100.00
Less cost of sales	1,121.53	82.32	1,017.30	82.57
<b>Gross Profit</b>	<b>240.93</b>	<b>17.68</b>	<b>214.73</b>	<b>17.43</b>

## GROSS PROFIT

- (1) The Company's gross profit in the 2<sup>nd</sup> quarter 2015 was Baht 89.90 million, or gross profit margin of 13.44 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 87.59 million or gross profit margin of 14.58 percent of the sales revenue, the gross profit margin decreased due to the increased in molasses (raw material) price as described above.
- (2) The Company's gross profit in the first 6-month period of 2015 was Baht 240.93 million, or gross profit margin of 17.68 percent of the sales revenue. When compared with the gross profit of the same period last year of 214.73 million or gross profit margin of 17.43 percent of the sales revenue. This was due to a fact that ethanol selling price increased at higher proportion than the increase of ethanol sales as described above.

Net Profit	Year 2015		Year 2014		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
<b>2<sup>nd</sup> quarter (April – June)</b>						
Net Profit	58.17	99.08	54.56	97.50	3.61	6.62
Other Revenue	0.54	0.92	1.40	2.50	(0.86)	(61.43)
Total	<b>58.71</b>	<b>100.00</b>	<b>55.96</b>	<b>100.00</b>	<b>2.75</b>	<b>4.91</b>
<b>6-Month Period (January – June)</b>						
Net Profit	174.87	99.39	156.24	98.79	18.63	11.92
Other Revenue	1.07	0.61	1.92	1.21	(0.85)	(44.27)
Total	<b>175.94</b>	<b>100.00</b>	<b>158.16</b>	<b>100.00</b>	<b>17.78</b>	<b>11.24</b>
<b>Remark:</b> Registered per value of Baht 1 per share						

## **NET PROFIT**

- (1) The Company's net profit in the 2<sup>nd</sup> quarter 2015 was Baht 58.71 million or net earnings of Baht 0.06 per share. When compared with the same period last year, the net profit increased by 4.91 percent, due to the increase in revenue from sales, and decrease in selling and administrative expenses as described above.
- (2) The Company's net profit in the first 6-month period of 2015 was Baht 175.94 million or net earnings of Baht 0.18 per share. When compared with the same period of last year, the net profit increased by 11.24 percent, due to the increase in revenue from sales, and decrease in selling and administrative expenses as described above.

## **EBITDA AND EBITDA MARGIN**

- (1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the first 6-month period of 2015 was Baht 275.81 million. When compared with the same period of last year, EBITDA increased by 12.30 percent, due to the increase in net profit as described above.
- (2) The Company's EBITDA MARGIN in the first 6-month period of 2015 was at 20.23 percent of the total revenues. When compared with the same period of last year, the EBITDA MARGIN increased by 1.62 percent as described in item (1) above.

## **EARNINGS EFFICIENCY**

- (1) The Company's net profit margin in the first 6-month period of 2015 was at 12.90 percent of the total revenues, which increased from the same period of last year of 12.82 percent by 0.67 percent.
- (2) The Company's return on equity in the first 6-month period of 2015 was at 21.04 percent. When compared with the same period of last year with the average return on equity of 23.01 percent, it decreased by 8.56 percent.
- (3) The Company's return on total assets in the first 6-month period of 2015 was at 10.77 percent. When compared with the same period last year with the return on total assets of 10.54 percent, it increased by 2.18 percent. The asset turnover ratio was at 0.42 times.

## STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht			
	As at June 30, 2015	As at December 31, 2014	Increase (Decrease)	%
Total Assets	3,146.92	3,385.00	(238.08)	(7.03)
Total Liabilities	1,411.81	1,775.83	(364.02)	(20.50)
Total Shareholder's Equity	1,735.11	1,609.17	125.94	7.83
<b>Book Value-Baht per Share</b>	<b>1.74</b>	<b>1.76</b>	<b>(0.02)</b>	<b>(1.14)</b>
<b>Remark: Registered per value of Baht 1 per share</b>				

### ASSETS

The Company's total assets as at June 30, 2015 decreased from the end of 2014 by Baht 238.08 million or an decrease of 7.03 percent, consisting of:

- (1) Current assets decreased from the end of 2014 by Baht 192.69 million or an decrease of 19.33 percent, due to (A) cash and cash equivalent decreased by Baht 3.33 million or an decrease of 14.96 percent, (B) trade accounts receivable increased by Baht 35.52 million or an increase of 18.22 percent; (C) inventories increased by Baht 302.00 million or an increase of 266.15 percent, most of which were molasses, purchased or reserved for the 3<sup>rd</sup> and 4<sup>th</sup> quarter 2015; (D) advances payment for purchase goods decreased by Baht 494.65 million or a decrease of 78.61 percent and (E) other current assets decreased by Baht 32.23 million or a decrease of 87.92 percent.
- (2) Non-current assets decreased from the end of 2014 by Baht 45.39 million or an decrease of 1.90 percent, due to (A) land, plant, and equipment decreased by Baht 39.33 million or decrease of 1.66 percent. (B) Other non-current assets decreased by Baht 6.06 million or decrease of 39.12 percent.

### LIABILITIES

The Company's total liabilities as at June 30, 2015 decreased from the end of 2014 by Baht 364.02 million or a decrease of 20.50 percent, due to: (1) Trade accounts payable and other accounts payable decreased by Baht 32.45 million or a decrease of 24.22 percent, most of which were molasses expenses. (2) Short term and long term loans decreased by Baht 336.10 million or a decrease of 20.74 percent, due to loan repayment. (3) Other liabilities, most of which are operation costs and interest expenses, increased by Baht 4.53 million or a decrease of 21.63 percent.

### TOTAL SHAREHOLDERS' EQUITY

The total shareholders' equity of the Company as at June 30, 2015 increased from the end of 2014 by Baht 125.94 million or an increase of 7.83 percent, the share's book value decreased from Baht 1.76 per share to

Baht 1.74 per share. This was due to the book value as calculated by weighted-average number of common shares outstanding during that year.

Cash Flows	First six months period (January – June)	
	Unit: Million Baht	
	Year 2015	Year 2014
Cash Flows from (used in) Operating Activities	402.40	163.83
Cash Flows from (used in) Investing Activities	(18.95)	(188.19)
Cash Flows from (used in) Financing Activities	(386.78)	43.92
Net Increase (Decrease) in Cash	(3.33)	19.56
Cash at the Beginning of the Period	22.26	11.99
<b>Cash at the End of the Period</b>	<b>18.93</b>	<b>31.55</b>

## CASH FLOWS

- (1) The Company's net cash from operating activities in the first 6-month period of 2015 was at Baht 402.40 million, consisting of; (A) income before corporate income tax and interest payment of Baht 189.09 million; (B) transactions that did not affect the cash such as the depreciation; Baht 87.25 million; (C) an decrease in operating assets of Baht 184.73 million due to an increase in trade receivable and inventories while advance payments for purchase of goods decreased; (D) an decrease in operating liabilities of Baht 30.05 million due to an increase in trade accounts payable and other accounts payable, and (E) interest expense by Baht 28.62 million.
- (2) The Company's net cash used in investment activities in the first 6-month period of 2015 was Baht 18.95 million, consisting of: (A) an increase in property, plant and equipment of Baht 22.67 million, most of which were constructions of molasses storage tanks and a bio-gas power plant.
- (3) The Company's net cash used in financing activities in the first 6-month period of 2015 was Baht 386.78 million; including (A) short-term loan repayment of Baht 246.11 million, (B) finance leases repayment of Baht 0.67 million, (C) long-term loan repayment of Baht 90.00 million and (D) dividend payment of Baht 50.00 million.

## ASSET MANAGEMENT CAPABILITY

- (1) The Company's trade accounts receivable and other accounts receivable as at end of 2014 were 5.76 percent of total asset. These receivable accounts are not fully due yet of Baht 386.78 million. The provision of doubtful debts are considered based on a review of receivable period and assessment of past debt collection experience. Accordingly, the Company has not experienced in bad debt and has not found any unusual transaction in the first 6-month period of 2015 and therefore, there was no provision for doubtful debt in the first 6-month period of 2015.



- (2) Inventory as at end of 2015 was 3.35 percent of total asset without deterioration of the assets and impact from the lower market price. Therefore, there was no allowance for impairment loss of inventory in first 6-month period of 2015.

#### **LIQUIDITY AND SUFFICIENCY OF CAPITAL**

- (1) The Company's current ratio and quick ratio in the first 6-month period of 2015 were at 0.79 times and 0.24 times, respectively. Even though, the current ratio was lower than normal, the Company still has adequate credit line for working capital in the future.
- (2) The Company's cash cycle in the first 6-month period 2015 was at 16.49 days, an increase from the end of 2014 by 1.43 days. This was due to the average debt collection period increased from 26.81 days in the end of 2014 to 28.11 days in the first 6-month period 2015. The company's average holding period increased from 2.56 days in the end of 2014 to 5.06 days. Moreover, the average payment period increased from 14.32 days in the end of 2014 to 16.68 days.
- (3) As for investment in year 2015, the construction of Raw sugar remelt for production line No.2, with investment of about Baht 7 million. The completion and commencement of 2<sup>nd</sup> quarter 2015, This will help with the cost management making the ethanol production cost lower and more effective. The source of investment fund for these projects comes from its own cash generation, Besides the Company is studying in producing HIGH-TEST MOLASSES to be used as raw material in ethanol producing instead of molasses, resulting in a stability of raw material and cost of ethanol producing could be better managed.

#### **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 times and debt service coverage ratio (DSCR) of no less than than 1.25 time in next years 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) A written approval from the lender bank is required before the company can accrue more debts. Currently, the company has adequate credit line for its working capital for business operation.
- (4) The lending bank has stipulated that the company cannot pay dividend to its shareholders, including Lanna, 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 breached the conditions of loan agreements and has been provided with good financial support from lending banks.

#### **IMPACT TO FUTURE OPERATIONS**

It is expected that the ethanol selling price for 2015 should be higher than in the past year 2014. However, the price of raw material, molasses has continued to increase also. Nonetheless, the Company can still be profitable for 2015, by putting emphasis on the cost and expense reduction strategy. Accordingly, the Company will try to manage and solve any occurred problem carefully in order the performance would be in good standard and could pay dividend as the policy continuously.

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