



**THAI AGRO ENERGY PUBLIC COMPANY LIMITED**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE OPERATING RESULTS OF**

**THE 2<sup>nd</sup> QUARTER OF 2016**

# THAI AGRO ENERGY PUBLIC COMPANY LIMITED

## MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 2<sup>nd</sup> Quarter of 2016 and the First 6-Months of 2016)

### OVERALL OPERATING RESULTS

In the 2<sup>nd</sup> quarter of 2016, the company generated a total revenue at Baht 681.76 million, an increase from the same period of last year by 1.87 percent while the first 6-month of 2016 the total revenue generated at 1,332.02 million, a decrease from the same period of last year by 2.31 percent.

The net profit of the 2<sup>nd</sup> quarter 2016 and that of the first 6-month period of 2016 were Baht 39.06 million and Baht 127.86 million, a decrease from the same period last year by 33.47 percent and 27.33 percent respectively. This was due to the prevailing low crude oil and fuel oil prices which suppressed the selling price of ethanol.

The average ethanol selling price in the 2<sup>nd</sup> quarter of 2016 and the first 6-month period of 2016 were decreased from the same period last year by 13.06 and 11.77 percent respectively. However, ethanol sales volume in the 2<sup>nd</sup> quarter of 2016 increased by 17.05 and 10.71 percent respectively as compared to the same period in 2015 due to the increasing consumption of fuel oil when oil prices were low.

### OPERATING RESULTS ANALYSIS

#### REVENUE

Revenue	Year 2016		Year 2015		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
<b>2<sup>nd</sup> quarter (April – June)</b>						
Sales Revenue	680.65	99.84	668.69	99.92	11.96	1.79
Other Revenue	1.11	0.16	0.54	0.08	0.57	105.56
<b>Total Revenue</b>	<b>681.76</b>	<b>100.00</b>	<b>669.23</b>	<b>100.00</b>	<b>12.53</b>	<b>1.87</b>
<b>6-Month Period (January – June)</b>						
Sales Revenue	1,330.86	99.91	1,362.45	99.92	(31.59)	(2.32)
Other Revenue	1.16	0.09	1.07	0.08	0.09	8.41
<b>Total Revenue</b>	<b>1,332.02</b>	<b>100.00</b>	<b>1,363.52</b>	<b>100.00</b>	<b>(31.50)</b>	<b>(2.31)</b>

- (1) The Company's total revenue in the 2<sup>nd</sup> quarter of 2016 totaled Baht 681.76 million, which increased from the same period last year by Baht 12.53 million or 1.87 percent, due to the following reasons.
- The revenue from ethanol sales was Baht 680.65 million or 99.84 percent of total revenue, increased from the same period last year by Baht 11.96 million or 1.79 percent due to the increase in ethanol sales volume.

- The other revenue was Baht 1.11 million or 0.16 percent of total revenue, increased from the same period of last year by Baht 0.57 million or 105.56 percent. This was due to the income from the sales of assets and Fusel Oil.

(2) The company's revenue in the first 6-month period of 2016 totaled Baht 1,332.02 million, decreased from the same period of last year by Baht 31.50 million or 2.31 percent, due to the following reasons.

- The revenue from ethanol sales totaled Baht 1,330.86 million or 99.91 percent of total revenue, decreased from the same period of last year Baht 31.59 million or 2.32 percent, resulted from the decrease of ethanol selling price.
- The other revenue was Baht 1.16 million or 0.09 percent of total revenue, increased from the same period of last year by Baht 0.09 million or 8.41 percent, resulted from the income from the sales of assets and Fusel Oil.

## EXPENSES

Expenses	Year 2016		Year 2015		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	%
<b><u>2<sup>nd</sup> quarter (April – June)</u></b>						
Cost of sale	613.13	90.08	578.79	86.56	34.34	5.93
Selling and administrative expense	17.20	2.53	14.77	2.21	2.43	16.45
Financial cost	9.98	1.47	13.28	1.99	(3.30)	(24.85)
Income tax expense	2.39	0.35	3.68	0.55	(1.29)	(35.05)
<b>Total Expenses</b>	<b>642.70</b>	<b>94.42</b>	<b>610.52</b>	<b>91.30</b>	<b>32.18</b>	<b>5.27</b>
<b><u>6-Month Period (January – June)</u></b>						
Cost of sale	1,140.38	85.69	1,121.53	82.32	18.85	1.68
Selling and administrative expense	30.87	2.32	24.58	1.80	6.29	25.59
Financial cost	20.83	1.57	28.33	2.08	(7.50)	(26.47)
Income tax expense	12.08	0.91	13.14	0.96	(1.06)	(8.07)
<b>Total Expenses</b>	<b>1,204.16</b>	<b>90.48</b>	<b>1,187.58</b>	<b>87.17</b>	<b>16.58</b>	<b>1.40</b>

(1) The Company's expenses in the 2<sup>nd</sup> quarter of 2016 totaled Baht 642.70 million, increased from the same period of last year by Baht 32.18 million or 5.27 percent, due to the following reasons.

- Cost of sales increased from the same period of last year by Baht 34.34 million or 5.93 percent. This was due to an increases in sales volume of ethanol.
- Selling and administrative expenses increased from the same period of last year by Baht 2.43 million or 16.45 percent. This was due to the increase of transportation cost and staff and administration expenses.

- Financial expenses in the 2<sup>nd</sup> of quarter 2016 decreased from the same period last year by Baht 3.30 million or 24.85 percent. This was due to short term and long term loan repayment, resulting in a decrease in interest expense.
  - Earning from ethanol sale from production line No.1 is taxable since the Board of Investment Promotion has expired. Tax payable in the 2<sup>nd</sup> of quarter 2016 decreased by Baht 1.29 million or 35.05 percent from the same period last year.
- (2) The Company's expenses in the first 6-month period of 2016 totaled Baht 1,204.16 million, which increased from the same period last year by Baht 16.58 million or 1.40 percent, due to the following reasons.
- Cost of ethanol sales increased from the same period of last year by Baht 18.85 million or 1.68 percent. This was due to the increase in sales volume of ethanol and increase in raw material consumption.
  - Selling and administrative expenses increased from the same period of last year by Baht 6.29 million or 25.59 percent. This was due to the increase in cost of transportation and administration expenses.
  - Financial expenses decreased from the same period of last year by Baht 7.50 million or 26.47 percent. This was due to the repayment of short term and long term loan, resulting in the decrease in interest expense.
  - Earning from ethanol sale from production line No.1 is taxable since the Board of Investment Promotion has expired. Tax payable in the first 6-month of 2016 decreased by Baht 1.06 million or 8.07 percent from the same period last year.

## GROSS PROFIT

Gross profit	Year 2016		Year 2015	
	Baht Million	%	Baht Million	%
<b><u>2<sup>nd</sup> quarter (April – June)</u></b>				
Revenues from sales	680.65	100.00	668.69	100.00
Less cost of sales	613.13	90.08	578.79	86.56
<b>Gross Profit</b>	<b>67.52</b>	<b>9.92</b>	<b>89.90</b>	<b>13.44</b>
<b><u>6-Month Period (January – June)</u></b>				
Revenues from sales	1,330.86	100.00	1,362.45	100.00
Less cost of sales	1,140.38	85.69	1,121.53	82.32
<b>Gross Profit</b>	<b>190.48</b>	<b>14.31</b>	<b>240.92</b>	<b>17.68</b>

- (1) The Company's gross profit in the 2<sup>nd</sup> quarter of 2016 was Baht 67.52 million, or 9.92 percent of the sales revenue as compared to the gross profit of the same period last year at Baht 89.90 million or 13.44 percent of the sales revenue. The gross profit and profit margin decreased due to the decrease in ethanol selling prices during the period.
- (2) The Company's gross profit in the first 6-month period of 2016 was Baht 190.48 million, or 14.31 percent of the sales revenue as compared to the gross profit of the same period last year at 240.92 million or 17.68 percent of the sales revenue. The gross profit and profit and profit margin decreased due to the decrease in ethanol selling prices as described above.

#### **EBITDA AND EBITDA MARGIN**

<b>EBITDA &amp; EBITDA MARGIN (Unit : Baht Million)</b>	<b>Year 2016</b>	<b>Year 2015</b>	<b>Increase (Decrease)</b>	<b>%</b>
<b><u>2<sup>nd</sup> quarter (April – June)</u></b>				
EBITDA	82.06	106.38	(24.32)	(22.86)
EBITDA MARGIN	12.04	15.90	(3.86)	(24.28)
<b><u>6-Month Period (January – June)</u></b>				
EBITDA	221.65	275.81	(54.16)	(19.64)
EBITDA MARGIN	16.64	20.23	(3.59)	(17.74)

- (1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the 2<sup>nd</sup> quarter of 2016 was Baht 82.06 million, a decrease from the same period last year by 22.86. The Company's EBITDA MARGIN in the 2<sup>nd</sup> quarter of 2016 was 12.04 percent a decrease by 24.28 percent from the same period last year. The decrease in EBITDA and EBITDA MARGIN was due to the decrease in ethanol selling prices during the period.
- (2) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the first 6-month period of 2016 was Baht 221.65 million, a decrease from the same period last year by 19.64 percent. The Company's EBITDA MARGIN in first 6-month period of 2016 was 16.64 percent a decrease by 17.74 percent from the same period last year. The decrease in EBITDA and EBITDA MARGIN was due to the decrease in ethanol selling prices during the period.

## NET PROFIT

Net Profit	Year 2016		Year 2015		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
<b>2<sup>nd</sup> quarter (April – June)</b>						
Net Profit	39.06	100.00	58.71	100.00	(19.65)	(33.47)
NET PROFIT MARGIN	5.73		8.77		(3.04) (34.69)	
NET PROFIT PER SHARE	0.04		0.06		(0.02) (33.33)	
<b>6-Month Period (January – June)</b>						
Net Profit	127.86	100.00	175.94	100.00	(48.08)	(27.33)
NET PROFIT MARGIN	9.60		12.90		(3.30) (25.61)	
NET PROFIT PER SHARE	0.13		0.18		(0.05) (27.78)	
<b>Remark:</b> Registered per value of Baht 1 per share						

- (1) The Company's net profit in the 2<sup>nd</sup> quarter of 2016 was Baht 39.06 million generating a net earnings at Baht 0.04 per share. When compared to the same period last year, the net profit decreased by 33.47 percent, due to the decrease in sale revenue. The Company's net profit margin in 2<sup>nd</sup> quarter of 2016 was 5.73 percent, a decrease by 34.69 percent as compared to 8.77 percent in the same period last year.
- (2) The Company's net profit in the first 6-month period of 2016 was Baht 127.86 million or net earnings of Baht 0.13 per share. When compared to the same period last year, the net profit decreased by 27.33 percent, due to the decrease in sale revenue. The Company's net profit margin in the first 6-month period of 2016 was 9.60 percent, a decrease by 25.61 percent as compared to 12.90 percent in the same period last year.

## STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht			
	As at June 30, 2016	As at December 31, 2015	Increase (Decrease)	%
Total Assets	3,074.90	3,241.28	(166.38)	(5.13)
Total Liabilities	1,293.49	1,537.73	(244.24)	(15.88)
Total Shareholder's Equity	1,781.41	1,703.55	77.86	4.57
<b>Book Value-Baht per Share</b>	<b>1.78</b>	<b>1.70</b>	<b>0.08</b>	<b>4.71</b>
<b>Remark:</b> Registered per value of Baht 1 per share				

## ASSETS

The Company's total assets as at June 30, 2016 decreased from the year end of 2015 by Baht 166.38 million or a decrease of 5.13 percent. Total assets consist of:

- (1) Current assets decreased from by Baht 202.26 million or a decrease of 21.34 percent, which consist of (A) cash and cash equivalent increased by Baht 10.12 million or an increase of 111.21 percent, (B) Current investments increased by Baht 0.07 million or 8.97 percent; (C) Trade accounts receivable and other receivables increased by Baht 41.17 million or 20.41 percent; (D) Inventories increased by Baht 222.84 million or 161.94 percent, most of which were molasses procurement reserved for ethanol production in year 2016 (E) Advanced payments for purchases decreased from year end 2015 by Baht 457.94 million or 79.21 percent, and (F) Other Current Assets decreased by Baht 18.52 million or 89.73 percent, most of which were revenue tax payable.
- (2) Non-Current Assets increased from year end 2015 by Baht 35.88 million or 1.56 percent, consisting of: (A) land, plant, and equipment increased by Baht 36.62 million or 1.60 percent; (B) Other non-current assets decreased by Baht 0.74 million or 11.40 percent.

## LIABILITIES

The Company's total liabilities as at June 30, 2016 decreased from the year end of 2015 by Baht 244.24 million or a decrease of 15.88 percent, which consist of (1) Trade accounts payable and other accounts payable increased by Baht 72.35 million or an increase of 106.54 percent, most of which were molasses expenses. (2) Short term and long term loans decreased by Baht 325.54 million or a decrease of 22.56 percent, due to loan repayment. (3) Other liabilities, most of which were operation costs and interest expenses, increased by Baht 8.95 million or an increase of 32.99 percent.

## TOTAL SHAREHOLDERS' EQUITY

The total shareholders' equity of the Company as at June 30, 2016 increased from the end of 2015 by Baht 77.86 million or an increase of 4.57 percent, the share's book value increased from Baht 1.70 per share to Baht 1.78 per share, due to the increase of company's net profit.

## CASH FLOWS

Cash Flows	First six months period (January – June)	
	Unit: Million Baht	
	Year 2016	Year 2015
Cash Flows from (used in) Operating Activities	478.15	402.40
Cash Flows from (used in) Investing Activities	(91.26)	(18.95)
Cash Flows from (used in) Financing Activities	(376.77)	(386.78)
Net Increase (Decrease) in Cash	10.12	(3.33)
Cash at the Beginning of the Period	9.10	22.26
<b>Cash at the End of the Period</b>	<b>19.22</b>	<b>18.93</b>

- (1) The Company's net cash from operating activities in the first 6-month period of 2016 was at Baht 478.15 million which consisting of (A) income before corporate income tax of Baht 139.93 million; (B) Non cash items such as the depreciation amounted to Baht 81.94 million; (C) an decrease in operating assets of Baht 212.46 million due to an increase in trade and other receivables and inventories while advance payments for purchase of goods and current assets decreased; (D) an increase in operating liabilities of Baht 69.55 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 21.06 million, and (G) Corporate income tax at 4.75 million.
- (2) The Company's net cash used in investment activities in the first 6-month period of 2016 was Baht 91.26 million which consists of: (A) an increase in equipment at Baht 91.66 million, most of which were constructions of Hydrogen Sulfide Treatment Plant and Construction of Molasses Tanks; (B) Purchase of intangible assets in the amount of Baht 0.12 million, mainly computer programs, and (C) sales of assets amount to Baht 0.52 million.
- (3) The Company's net cash used in financing activities in the first 6-month period of 2016 was Baht 376.77 million which include (A) short-term loan repayment at Baht 235.54 million, (B) financial leases repayment at Baht 1.23 million, (C) long-term loan repayment at Baht 90.00 million and (D) dividend payment at Baht 50.00 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 times and debt service coverage ratio (DSCR) of no less than 1.25 time 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) A written approval from the lending bank is required before the company can accrue more debts. However, in December 2015, the company has signed an addendum to the loan agreement with the lending bank to waive such the condition;
- (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 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**

The Ministry of Energy has continuously accelerated plans for Energy Efficiency Development and Alternative Energy Development for the year 2015-2036, as part of its goals to reduce the environmental impact caused by the production and usage of energy and to escalate the demand of Ethanol. This results in positive impact on ethanol industry and company operating result.

However, the world crude oil price volatility may evolve to be a key factor affect the ethanol price and consequently, the company net profit. The company has the policy to increase its competitiveness by implementing plant efficiency development program which aims to reduce costs and other expenses. In addition, the studies of ethanol downstream industries, by-product applications and alternative feedstock have been undertaken in order to sustain the business growth and return to its shareholders as committed in the policy continually.

---