



THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FINANCIAL STATEMENTS OF THE 1st QUARTER 2020

MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 1st Quarter 2020)

OVERALL OPERATING RESULTS

The Company had total revenue during the 1st quarter 2020 of Baht 738.62 million which decreased from the same period last year by 2.05 percent with net profit of Baht 83.66 million, which accounts for net profit of Baht 0.08 per share, decreased from the same period last year by 53.90 percent and 55.56 percent respectively. This was due to the increase of the price of molasses, the raw material, which is a major cost increased by 28.86 percent in because of the drought that effect to the decrease of sugarcane entering the mills.

The average ethanol selling price in the 1st quarter 2020 increased from the same period last year by 2.31 percent while the ethanol sales volume decreased from the same period last year by 4.64 percent due to the outbreak of coronavirus disease (COVID-19) since January 2020 that caused of the government measures to reducing all forms of interaction, including travel. Therefore, the demand of fuel is decreased.

OPERATING RESULTS ANALYSIS

REVENUE:

Revenue	1 st quarter 2020		1 st quarter 2019		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Revenue from Ethanol Sales	738.06	99.92	753.41	99.91	(15.35)	(2.04)
Other Revenue	0.56	0.08	0.69	0.09	(0.13)	(18.84)
Total Revenue	738.62	100.00	754.10	100.00	(15.48)	(2.05)

The Company's total revenue in the 1st quarter 2020 was Baht 738.62 million, decreased from the same period last year by Baht 15.48 million or 2.05 percent, due to the following reasons.

- (1) The revenue from ethanol sales was Baht 738.06 million or 99.92 percent of total revenue, decreased by Baht 15.35 million or 2.04 percent from the same period last year due to the decrease of ethanol sales volume by 4.64 percent although the selling price increased from the same period last year by 2.31 percent in average.
- (2) The other revenue was Baht 0.56 million or 0.08 percent of total revenue, decreased by Baht 0.13 million or 18.84 percent from the same period last year. This was due to the decrease of income from Sulfur and fusel oil sales and interest received.

EXPENSES:

Expenses	1 st quarter 2020		1 st quarter 2019		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	% Sale
Cost of sales	621.40	84.19	528.53	70.15	92.87	17.57
Selling and administrative expense	19.39	2.63	16.62	2.21	2.77	16.67
Financial cost	12.24	1.66	9.55	1.27	2.69	28.17
Corporate income tax	1.93	0.26	17.94	2.38	(16.01)	(89.24)
Total Expenses	654.96	88.74	572.64	76.01	82.32	14.38

The Company's expenses in the 1st quarter 2020 was Baht 654.96 million, increased by Baht 82.32 million or 14.38 percent from the same period last year, due to the following reasons;

- (1) Cost of sales increased by Baht 92.87 million or 17.57 percent from the same period last year. This was due to increases in the price of molasses, the raw material, which is a major cost decreased from the same period last year by 28.86 percent as mentioned above.
- (2) Selling and administrative expenses increased by Baht 2.77 million or 16.67 percent from the same period last due to include of the operation expense of the EVAPORATOR SYSTEM FOR BIO METHANATED SPENT WASH 3,000 M³ PER DAY which is during commissioning.
- (3) Financial cost increased from the same period last year by Baht 2.69 million or 28.17 percent. This was due to the increase of short term loan and long term loan interest for the EVAPORATOR SYSTEM FOR BIO METHANATED SPENT WASH 3,000 M³ PER DAY construction.
- (4) Corporate income tax decreased by Baht 16.01 million or 89.24 percent from the same period last year due to the increase due to the additional tax exemption for ethanol production line no. 1 from investment promotion for 3 years since March 19, 2019 as its efficiency was improved to reduce environment impact.

GROSS PROFIT:

Gross Profit	1 st quarter 2020		1 st quarter 2019	
	Baht Million	%	Baht Million	%
Revenues from Sales	738.06	100.00	753.41	100.00
Less Cost of Sales	621.40	84.19	528.53	70.15
Gross Profit	116.66	15.81	224.88	29.85

The Company's gross profit in the 1st quarter 2020 was Baht 116.66 million or 15.81 percent of the sales revenue, which decreased from the same period last year with the gross profit of Baht 224.88 million or 29.85 percent of the sales revenue. This was due to the decrease of ethanol sales volume by 4.64 percent from last year and the increase in the molasses price which is the major cost, by approximately 28.86 percent from the same period last year.

NET PROFIT:

NET PROFIT & NET PROFIT MARGIN	Unit	1st quarter 2020	1st quarter 2019	Increase (Decrease)	%
NET PROFIT	Baht Million	83.66	181.46	(97.80)	(53.90)
NET PROFIT PER SHARE	Baht per Share	0.08	0.18	(0.10)	(55.56)
Remark: Registered per value of Baht 1 per share					

The Company's net profit in the 1st quarter 2020 was Baht 83.66 million which decreased from the same period last year by Baht 97.80 million or 53.90 Percent, which accounts for net profit of Baht 0.08 per share. When compared with the same period last year, the net profit decreased by Baht 0.10 per share or 55.56 percent. The reason is as described above.

EARNINGS EFFICIENCY

- (1) EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) of the Company in the 1st quarter 2020 was Baht 141.59 million, which decreased from the same period last year by Baht 107.68 million or 43.20 percent and EBITDA MARGIN decreased from 33.06 percent in the same period last year to 19.17 percent in the 1st quarter 2020.
- (2) Net profit margin of the Company in the 1st quarter 2020 decreased from 24.06 percent in the same period last year to 11.33 percent in the 1st quarter 2020.
- (3) Return on equity of the Company in the 1st quarter 2020 decreased from 27.70 percent at the end of 2019 to 21.03 percent in the 1st quarter 2020.
- (4) Return on total assets of the Company in the 1st quarter 2020 decreased from 12.99 percent at the end of 2019 to 10.11 percent. The return on fixed assets in the 1st quarter 2020 decreased from 24.39 at the end of 2019 to 20.87 percent in the 1st quarter 2020.

STATEMENT OF FINANCIAL POSITION

FINANCIAL POSITION	Unit	As at March 31, 2020	As at December 31, 2019	Increase (Decrease)	%
Total Assets	Baht Million	4,090.29	4,136.63	(46.34)	(1.12)
Total Liabilities	Baht Million	2,070.80	2,200.80	(130.00)	(5.91)
Total Shareholder's Equity	Baht Million	2,019.49	1,935.83	83.66	4.32
Book Value	Baht per Share	2.02	1.94	0.08	4.12
Remark: Registered per value of Baht 1 per share					

ASSETS: The Company's total assets as at March 31, 2020 decreased from the end of year 2019 by Baht 46.34 million or 1.12 percent. The total assets consisting of:

- (1) Current Assets decreased from the end of 2019 by Baht 47.05 million or 3.61 percent, due to (A) Cash and cash equivalent increased by Baht 2.38 million or 9.36 percent; (B) Trade accounts receivable and other receivables increased by Baht 66.39 million or 33.14 percent; (C) Inventories increased by Baht 311.07 million or 73.28 percent, most of which were molasses; (D) Advances payment for purchase goods, most of which were molasses, decreased by Baht 406.73 million or an decrease of 67.50 percent, and (F) Other Current Assets decreased by Baht 20.16 million or an decrease of 40.24 percent.
- (2) Non-Current Assets increased from the end of year 2019 by Baht 0.71 million or 0.03 percent, consisting of: (A) Biological assets increased by Baht 1.19 million or 60.71 percent; (B) Land, plant and equipment decreased by Baht 30.87 million or 1.09 percent; (C) Right-of-use assets increased by Baht 30.60 million and (D) Other non-current assets decreased by Baht 0.21 million or 3.65 percent.

LIABILITIES: The Company's Total Liabilities as at March 31, 2020 decreased from the end of year 2019 by Baht 130.00 million or 5.91 percent, consisting of: (A) Trade accounts payable and other accounts payable decreased by Baht 75.19 million or 46.70 percent, most of which were raw materials purchase. (B) Short term loans which for raw material supply, decreased by Baht 63.73 million or 4.15 percent, and (C) Other liabilities which most was accrued expenses decreased by Baht 8.88 million or 20.01 percent and; (D) Long term loans decreased by Baht 0.04 million or 0.01 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at March 31, 2020 increased from the end of year 2019 by Baht 83.66 million or 4.32 percent, resulting in an increase of the share's book value from Baht 1.94 per share to Baht 2.02 per share due to an increase in net profit as described above.

CASH FLOWS

Cash Flows	Unit: Million Baht	
	1 st quarter 2020	1 st quarter 2019
Cash Flows from (used in)Operating Activities	104.18	402.06
Cash Flows from (used in)Investing Activities	(36.30)	(60.50)
Cash Flows from (used in)Financing Activities	(65.50)	(341.95)
Net Increase (Decrease) in Cash	2.38	(0.39)
Cash at the Beginning of the Period	25.44	32.19
Cash at the End of the Period	27.82	31.80

- (1) The Company's net cash used in operating activities in the 1st quarter 2020 was Baht 104.18 million, consisting of: (A) Profit before corporate income tax of Baht 85.59 million; (B) Non-cash items such as depreciation; Baht 56.18 million.(C) An decrease in operating assets of Baht 49.45 million due to an decrease in trade and other receivables and inventories and advance payments for purchase of goods and other current assets; (D) An decrease in operating liabilities of Baht 74.52 million due to an decrease in trade accounts payable, other accounts payable and other current liabilities, (E) Interest received by Baht 0.01 million and (F) Interest expense by Baht 12.53 million.
- (2) The Company's net cash used in investment activities in the 1st quarter 2020 was Baht 36.30 million, consisting of : (A) Assets purchasing at Baht 35.10 million, and (B) Other miscellaneous items by Baht 1.20 million.
- (3) The Company's net cash used in financing activities in the 1st quarter 2020 was Baht 65.50 million consisting of; (A) Repayment of short-term loan of Baht 63.73 million, (B) Financial leases repayment at Baht 1.77 million.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The current ratio and quick ratio of the Company as at March 31, 2020 were 0.79 times and 0.19 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 March 31, 2020 was 1.03:1 times.

(3) The cash cycle of the Company in the 1st quarter 2020 was 26.64 days, which increased from the end of year 2019 by 6.07 days. The average debt collection period was at 32.11 days, which increased from the end of year 2019 by 1.58 days. The average inventory turnover was at 11.27

days, which increased from the end of year 2019 by 3.70 days, and the average debt repayment period was at 16.74 days, increased from the end of year 2019 by 0.79 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 times 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 middle of year 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.