



THAI AGRO ENERGY PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE OPERATING RESULTS OF

THE 1ST QUARTER 2014

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MANAGEMENT DISCUSSION AND ANALYSIS

(For the Financial Statements of the 1st Quarter 2014)

OVERALL OPERATING RESULTS

The Company's revenue and net profit in the 1st quarter 2014 were Baht 631.62 million and Baht 102.20 million, which increased from the same period last year by 55.34 and 150.79 percent, respectively. This was due to an increase in the average ethanol selling price in according 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 net profit was increased significantly.

The average ethanol selling price increased from the same period last year by 16.36 percent. Also, the average domestic demand of ethanol increased from 2.57 million liters per day in late 2013 to 3.03 million liters per day in March 2014. This was due to the reasons as described above. Therefore, the demand for using ethanol as a mixture in gasohol has been increasing continuously.



OPERATING RESULTS ANALYSIS

Revenue	1 st Quarter 2014		1 st Quarter 2013		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Revenue from Ethanol Business	631.11	99.91	406.39	99.95	224.72	55.29
Other Revenue	0.52	0.09	0.20	0.05	0.32	160.00
Total Revenue	631.63	100.00	406.59	100.00	225.04	55.34

REVENUE: The Company's total revenue in the 1st quarter 2014 totaled Baht 631.63 million, which increased from the same period last year by Baht 225.04 million or 55.34 percent. This was due to increase in ethanol sales volume and the average ethanol selling price by 36.24 and 16.36 percent, respectively.

Expenses	1 st Quarter 2014		1 st Quarter 2013		Increase (Decrease)	
	Baht Million	% Sale	Baht Million	% Sale	Baht Million	%
Cost of sale	503.97	79.85	333.94	82.17	170.03	50.92
Selling and administrative expense	10.03	1.59	19.85	4.88	(9.82)	(49.47)
Financial cost	15.41	2.44	13.15	3.24	2.26	17.19

EXPENSES: The Company's expenses in the 1st quarter 2014 totaled Baht 529.41 million, which increased from the same period last year by 44.28 percent, due to the following reasons.

(1) Cost of ethanol sales in the 1st quarter 2014 increased from the same period last year by Baht 170.03 million or 50.92 percent. This was due to an increase in the average ethanol cost of sales of 13.29 percent thanks to the increase in molasses raw material price, which is a major cost, from the same period last year by 17.10 percent.

(2) Selling and administrative expenses in the 1st quarter 2014 decreased from the same period last year by Baht 9.82 million or 49.47 percent. This was due to the cost of ethanol production line no. 1, which had a temporary shutdown for repairs and maintenance in the 1st quarter 2013 but had a normal operation in the 1st quarter 2014.

(3) Financial expenses in the 1st quarter 2014 increased from the same period last year by Baht 2.26 million or 17.19 percent due to short term loans engaged as working capital for the purchase of molasses, resulting in an increase in interest expense.

(4) There was no corporate income tax on the earnings from the ethanol business, having received the Board of Investment Promotion according to the Investment Promotion Act B.E. 2520.

Gross profit	1 st Quarter 2014		1 st Quarter 2013	
	Baht Million	%	Baht Million	%
Revenue from sales	631.11	100.00	406.39	100.00
Less cost of sales	503.97	79.85	333.94	82.17
Gross Profit	127.14	20.15	72.45	17.83

GROSS PROFIT: The Company's gross profit in the 1st quarter 2014 was Baht 127.14 million, or 20.15 percent of the sales revenue which increased from the same period last year of Baht 72.45 million or the gross profit of 17.83 percent of the sales revenue. This was due to the increased ethanol selling price as described above.

Net Profit	1 st Quarter 2014		1 st Quarter 2013		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Net Profit	102.20	100.00	40.76	100.00	61.44	150.73
Net Earnings per Share – Baht per Share	0.13		0.05		0.08	160.00
Remark: Registered per value of Baht 1 per share						

NET PROFIT: The Company's net profit in the 1st quarter 2014 was Baht 102.20 million or Net Earnings of Baht 0.13 per share. When compared with the same period last year, the Net profit increased by 160 percent, due to the increase in the average ethanol selling price per liter as described above.

EBITDA AND EBITDA MARGIN

(1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) is Baht 143.46 million, increasing from the same period last year by 79.73 percent due to the increase in profit.

(2) The Company's EBITDA margin is at 22.71 percent of the total revenues, increasing from the same period last year of 19.63 percent by 3.08 percent due to the increase in EBITDA as described in (1) above.

EARNINGS EFFICIENCY

The abovementioned increase in the net profit results in an increase in the earnings efficiency of the Company as follows.

(1) The Company's net profit margin in the 1st quarter 2014 was at 16.27 percent, which increased from the same period last year of 10.02 percent by 6.25 percent.

(2) The Company's return on equity in the 1st quarter 2014 was at 8.92 percent. When compared with the same period last year with the average return on equity of 3.64 percent, it increased by 5.29 percent.

(3) The Company's return on total assets in the 1st quarter 2014 was at 3.49 percent. When compared with the same period last year with the return on total assets of 1.64 percent, it increased by 1.85 percent. The asset turnover ratio was at 0.64 times.

STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at March 31, 2014	As at December 31, 2013	Million Baht	%
Total Assets	3,008.95	2,888.05	120.90	4.18
Total Liabilities	1,805.69	1,786.99	18.70	1.04
Total Shareholder's Equity	1,203.26	1,101.06	102.20	9.28
Book Value-Baht per Share	1.50	1.37	0.13	9.48
Remark: Registered per value of Baht 1 per share				

ASSETS: The Company's total assets as at March 31, 2014 increased from the end of 2013 by Baht 120.90 million or an increase of 4.18 percent, consisting of:

(1) Current assets increased from the end of 2013 by Baht 76.35 million or an increase of 11.62 percent, due to (A) cash and cash equivalent increased from the end of 2013 by Baht 25.48 million or 212.68 percent, (B) trade accounts receivable increased from the end of 2013 by Baht 62.12 million or an increase of 32.13 percent; (C) inventories increased from the end of 2013 by Baht 175.65 million or an increase of 208.73 percent, most of which were reserved or purchased molasses for the 2nd quarter 2014; and (D) other current assets decreased from the end of 2013 by Baht 9.07 million or a decrease of 52.88 percent.

(2) Non-current assets increased from the end of 2013 by Baht 44.56 million or an increase of 1.99 percent, due to an increase in property, plant, and equipment.

LIABILITIES: The Company's total liabilities as at March 31, 2014 increased from the end of 2013 by Baht 18.70 million or an increase of 1.05 percent, consisting of:

(1) Trade accounts payable and other accounts payable decreased from the end of 2013 by Baht 1.35 million or a decrease of 0.72 percent.

(2) Short term and long term loans increased from the end of 2013 was Baht 28.89 million or an increase of 1.82 percent.

(3) Accrued expenses, most of which are freight cost, etc., decreased from the end of 2013 by Baht 6.68 million or a decrease of 54.13 percent.

(4) Other liabilities, most of which are allowance for long-term benefits of employees, etc., decreased from the end of 2013 by Baht 2.06 million or a decrease of 41.70 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at March 31, 2014 increased from the end of 2013 by Baht 102.20 million or an increase of 9.28 percent, resulting in an increase of the share's book value from Baht 1.37 per share to Baht 1.50 per share. This was due to an increase in net profit of Baht 102.20 million.

Cash Flows	Unit: Million Baht	
	1 st Quarter 2014	1 st Quarter 2013
Cash Flows from (used in) Operating Activities	152.72	79.88
Cash Flows from (used in) Investing Activities	(76.03)	(9.90)
Cash Flows from (used in) Financing Activities	(51.21)	(71.00)
Net Increase (Decrease) in Cash	25.48	(1.02)
Cash at the Beginning of the Period	11.99	5.65
Cash at the End of the Period	37.47	4.63

CASH FLOWS

(1) The Company's net cash from operating activities in the 1st quarter 2014 was at Baht 152.72 million, consisting of; (A) income before corporate income tax and interest payment of Baht 102.77 million; (B) transactions that did not affect the cash such as the depreciation; (C) an increase in operating assets of Baht 50.79 million due to an increase in trade receivable and inventories while advance payments for purchase of goods decreased; (D) an increase in operating liabilities of Baht 78.11 million due to an increase in trade accounts payable and other accounts payable, and (E) an increase in interest expense by Baht 18.68 million.

(2) The Company's net cash used in investment activities in the 1st quarter 2014 was Baht 76.03 million, consisting of: (A) an increase in plant and equipment of Baht 75.96 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 1st quarter 2014 was Baht 51.21 million, including (A) a net increase in loan of Baht 28.79 million, and (B) dividend payment of Baht 80.00 million.

ASSET MANAGEMENT CAPABILITY

(1) The Company's trade accounts receivable and other accounts receivable as at end of 2013 were 6.12 percent of total asset. These receivable payments are not fully due yet. 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 experienced very little bad debt and has not found any unusual transaction in the 1st quarter 2014 and therefore, there was no provision for doubtful debt in the 1st quarter 2014.

(2) Inventory as at end of 2013 was 2.91 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 the 1st quarter 2014.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The Company's current ratio and quick ratio in the 1st quarter 2014 were at 0.64 times and 0.41 times, respectively. Even though, the current ratio was lower than normal, the Company still have adequate credit line for working capital in the future.

(2) The Company's cash cycle in the 1st quarter 2014 was at 22.33 days, an increase from the same period last year by 5.97 days. This was due to the average debt collection period in the 1st quarter 2014 was 29.64 days, which decreased from last year by 29.68 days. The company's average holding period in the 1st quarter 2014 was 9.29 days, which increased from 2013 by 3.76 days, Moreover, the average payment period in the 1st quarter 2014 was 16.60 days, which decreased from 2013 by 17.08 days.

(3) As for investment in 2014, the 3-megawatt bio-gas power generating system will require Baht 190 million in investment and scheduled to be completed within 3rd quarter 2014. The electricity shall be used within the ethanol production plant which shall further reduce cost of ethanol production. Also, there will be constructions of two molasses tanks totaling 20,000 tons in volume capacity, having investment budget of about Baht 60 million, with expected completion in the 2nd quarter 2014, in order to increase the volume of molasses storage from 40,000 tons to 60,000 tons for flexibility in receiving and storing molasses used as the main raw material for ethanol production. 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.

DEBT OBLIGATION

Thai Agro Energy Public Co., Ltd. (TAE) has obligation according to the terms and conditions of the loan agreement with a local commercial bank as follows.

(1) TAE 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 1.10 times. In the 1st quarter 2014, TAE 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 load 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 TAE can accrue more debts. Currently, TAE has adequate credit line for its working capital for business operation. Additionally, TAE has obtained approval from the Office of the Securities and Exchange Commission for the initial public offering of common shares and listing on the Stock Exchange of Thailand is expected within the 2nd quarter 2014, which will help TAE in acquiring additional sources of capital in the future, making the capital structure of TAE more appropriate.

(4) The lending bank has stipulated that TAE cannot pay dividend to its shareholders, including Lanna, if TAE cannot comply with the conditions as stipulated within the loan agreement, such as the maintenance of D/E ratio, DSCR, and shareholding proportion of Lanna in TAE, etc. Accordingly, TAE 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 expects that the ethanol selling price for 2014 should be higher than in the past year 2013. However, the price of raw material, molasses has continued to increase also. Nonetheless, the Company can still be profitable by putting emphasis on the cost and expense reduction strategy. Accordingly, the Company shall endeavor to manage and resolve all the problems with prudence to ensure and continue with good operating results in 2014.
