



บริษัท เอไอ เอนเนอร์จี้ จำกัด (มหาชน)

AI Energy Public Company Limited

ทะเบียนเลขที่ 0107556000311

AIE 041/2020

24 February 2020

**Subject:** Management's Discussion and Analysis for Year 2019 ended as of December 31, 2019

**Attention:** President

The Stock Exchange of Thailand

AI Energy Public Company Limited (AIE) would like to submit the financial statement for year ending December 31, 2019 (1 January – 31 December) for the company and its subsidiaries, detailed as following:

Results	2019 <u>Audited</u> Million Baht	2018 <u>Audited</u> Million Baht	Increase (Decrease)	
			Million Baht	%
Total Revenues	1,997.19	1,570.92	426.27	27.14
Sell and Services	1,980.67	1,562.80	417.87	26.74
Other Income	16.52	8.12	8.40	103.45
Cost of Goods Sold and Services	(2,046.23)	(1,534.44)	511.79	33.35
Gross Profit (Loss)	(65.56)	28.36	(93.92)	(331.17)
Sales & Administration Expenses and Financial Cost and Tax Expense	(107.46)	(108.80)	(1.34)	(1.23)
Net Profit (Loss)	(156.50)	(72.32)	84.18	116.40
Earnings per share (Baht per share)	(0.030)	(0.015)	0.0149	99.40

### **Net Profit (Loss)**

The Company and subsidiaries (Consolidated) realized net loss of 156.50 million Baht in 2019, and net loss of 72.32 million Baht in 2018. The Company's net loss has increased 84.18 million Baht or 116.40 % from the previous year.



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In 2019, The Company (Separate) has realized net loss of 148.86 million Baht compared to net loss of 54.54 million Baht in 2018. The Company's net loss has increased by 94.32 million Baht or 172.94%. Increased loss is the result of adjusting up-down price of crude palm oil during 2019, the Crude Palm Oil ("CPO") price was fluctuated in 2019 (in range of 35.50 – 14.00 Baht/Kilogram, with variance of 21.50 Baht/Kilogram), where CPO price was higher fluctuated than in 2018 (in range of 23.00-16.00 Baht/Kilogram, with variance of 7.00 Baht/Kilogram) (Source: DIT, Ministry of Commerce). In 2019, CPO price was highly fluctuated up-down. The Company realized its stock loss of 44.00 million Baht from the recording NRV on 31 December 2019 for crude glycerine used as raw material in production of refined glycerine. Besides, part of the loss was also caused by loss on impairment of investment in subsidiary (AIL) of 20.75 million Baht.

In 2019, there was an oversupply of palm fruits and CPO that have flooded into the market and Thailand's CPO safety stock reached 500,000 tons, where the safety stock should be around 200,000 tons. Therefore, the average CPO price in 2019 was lower than the average price in 2018. During the 1<sup>st</sup> quarter to the beginning of the 4<sup>th</sup> quarter, the Company realized higher the average cost of CPO than CPO price in the market. As a result, the Company's cost of raw materials cannot adjust to the market price continuously decline in time. Even though, the government has imposed the urgent measures to absorb excess palm oil in the system to solve the problem of falling palm prices by subsidized palm fruit price, increase the proportion of biodiesel blends to B10 in some parts of Thailand and B20 for fleet in logistic and transportation sectors and subsidized B10 and B20 to be lower than B7, as well as assigned the Electricity Generating Authority of Thailand (EGAT) to purchase CPO to burn as fuel to generate electricity in Bang Pakong Power Plant, Chachoengsao Province. Until the end of 4<sup>th</sup> quarter of 2019 (November), palm fruit and CPO prices began to increase due to most of the arable land faces drought, resulting in less quantity of palm products coming to the market. Hence, the CPO's safety stock has rapidly reduced, while the demand of CPO in Biodiesel's production has increased after the Ministry of Energy has issued measures to increase the proportion of biodiesel blends in diesel from B7 to B10 as standard diesel and be formally enforced nationwide.

Thus, the Company may be risk due to the fluctuation of CPO price since sometime the Company is unable to adjust its costing inline to the market price continuously and severely. The fluctuation of the price of CPO may affect the earning of the Company. However, the Company aware of these risks, the policy has determined to adopt, especially in raw material procurement procedures. The Company attempt to maintain a faster inventory



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turnover, where raw material (CPO) and product (Biodiesel) were stocked for 30 days just enough for monthly delivery plan within quarter and/or year contracts. Besides, the Company emphasis on efficiently control the loss rate from production but cannot completely eliminate such risk, only help to decrease the impact from the fluctuation of the price of CPO to the Company's performance.

Subsidiaries realized net loss of 28.39 million Baht in 2019 and net loss of 35.26 million Baht in 2018, which the subsidiaries company's operations are mainly supported by the holding company. The realized of AIL's net loss in 2019 was the allowance for impairment amount of 1.62 million Baht and the realized of AIPT's net loss in 2018 was the allowance for impairment amount of 17.40 million

**Gross Profit (Loss)**

The Company has a gross loss from sales of goods and services in 2019 of 52.70 million Baht, the loss increased by 80.62 million Baht, or 288.75% comparing to 2018, which realized gross profit of 27.92 million Baht.

Subsidiaries have gross loss from sales of services in 2019 of 12.88 million Baht and have realized gross profit of 0.44 million Baht in 2018, which gross loss increased by 13.32 million Baht

For the following reasons;

The result of 2019 (Unit: Million Baht)	Biodiesel	Palm oil		Vessel	Total Sale	Other	Total
	Edible oil	refining	Refined	operating	and	income	revenues
	By-product	service	Glycerine		service		
Revenues from sales and services	1,956.11	7.01	1.06	16.49	1,980.67	16.52	1,997.19
Cost of sales and services	(1,966.45)	(4.74)	(1.23)	(29.81)	(2,002.23)	0.00	(2,002.23)
Allowance for devaluation of inventories	(4.00)	0.00	(40.00)	0.00	(44.00)		(44.00)
Gross profit (loss) by segment	(14.34)	2.27	(40.17)	(13.32)	(65.56)	16.52	(49.04)
Segment income (%)	97.94	0.35	0.05	0.83	99.17	0.83	100.00
Sales to Cost of Sales (%)	100.53	67.62	116.04	180.81	103.31	0.00	102.46



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AI Energy Public Company Limited

ทะเบียนเลขที่ 0107556000311

The result of 2018 (Unit: Million Baht)	Biodiesel	Palm oil		Vessel	Total Sale	Other	Total
	Edible oil	refining	Refined	operating	and	income	revenues
	By-product	service	Glycerine		service		
Revenues from sales and services	1,459.23	49.46	0.00	54.11	1,562.80	8.12	1,570.92
Cost of sales and services	(1,441.65)	(36.37)	0.00	(53.67)	(1,531.69)	0.00	(1,531.69)
Allowance for devaluation of inventories	(2.75)	0.00	0.00	0.00	(2.75)	0.00	(2.75)
Gross profit (loss) by segment	14.83	13.09	0.00	0.44	28.36	8.12	36.48
Segment income (%)	92.89	3.15	0.00	3.44	99.48	0.52	100.00
Sales to Cost of Sales (%)	98.80	73.54	0.00	99.19	98.19	0.00	97.68

Compare the results of the operation	Biodiesel	Palm oil		Vessel	Total Sale	Other	Total
	Edible oil	refining	Refined	operating	and	income	revenues
	By-product	service	Glycerine		service		
Segment revenue variance	496.88	(42.45)	1.06	(37.62)	417.87	8.40	426.27
The difference of rates revenue by segment (%)	34.05	(85.83)	100.00	(69.53)	26.74	103.51	27.14
Sales cost variance (million Baht)	526.05	(31.63)	41.23	(23.86)	511.79	0.00	511.79
The rate of sales cost variance (%)	36.40	(86.97)	100.00	(44.46)	30.72	0.00	30.72
The difference of cost rates (%)	1.73	(5.92)	116.04	81.62	5.12	0.00	4.78

## Revenue from Sales and Services

### 1. Revenue from Sales and Services

The Company and subsidiaries realized the revenue as of 2019 for 1,980.67 million Baht which increased by 417.87 million Baht or 26.74% from the year 2018, which realized the revenue of 1,562.80 million Baht, where the reasons are summarized as follows;



บริษัท เอไอ เอนเนอร์จี้ จำกัด (มหาชน)

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### **1.1 Sales of Biodiesel, Edible oil and By-product**

The Company's revenue from sales of Biodiesel, Edible Oil and By-products in 2019 was increased by 496.88 million Baht or 34.08% from 2018 due to the increased in quantities sold.

The Company's products were sold 2019 more than those in 2018 by 44.75%. Due to decrease in the average selling price per unit of product by 26.31 % as followed.

- Biodiesel's Quantity sold in 2019 was increased by 36.59% when compared to 2018 and the average selling price was decreased by 6.67%. The Company received award bidding from new customer and more quantities sold in the end of 4<sup>th</sup> quarter 2019 as a result of the support and the measures to increase the proportion of biodiesel blends in diesel from B7 to B10 as standard diesel and be formally enforced nationwide. Therefore, oil traders under section 7 have increased their order in accordance with the Ministry of Energy's measures in December 2019. The average selling price was decreased due to the decreased in CPO's prices in 2019, where the average price was 18,230 Baht/ton which lower price than in 2018 of 19,570 Baht/ton. (Source: DIT, Ministry of Commerce).
- Edible Oil's Quantity sold in 2019 was increased from 2018 by 166.51% from the same industrial customers, which entered into short-term contract with specific quantities and delivery term (Made to Order). The Company to efficiently control inventories aging and procurement that prevent risk from CPO's prices fluctuation.
- By-product's selling price in 2019 was decreased by 20.31 % due to high supply, while the quantities sold was increased by 46.95%, the sales volumes were increased in relation to increase in Biodiesel's sold. However, the Company will only sell by-products that excess the need in Biodiesel's and Refined Glycerine's productions.

### **1.2 Revenue from Refining Service**

Revenue from refining services are divided into 2 groups of customer base;

- Refining Service of semi-product for use in biodiesel production in 2019 was decreased from 2018 by 31.16 million Baht or 82.54%. The decreased revenue was due to the Company had no service in 2<sup>nd</sup> – 4<sup>th</sup> quarter of 2019 because the Company has shut down the machine that operate for refining service for repairing and maintenance and the existing machine has insufficient capacity to serve.



บริษัท เอไอ เอนเนอร์จี้ จำกัด (มหาชน)

AI Energy Public Company Limited

ทะเบียนเลขที่ 0107556000311

- Refining Service for Edible oil in 2019, the Company had no transaction and was decreased from 15.58 million Baht in 2018 by 100%.

### **1.3 Refined Glycerine**

The Company has started the production and began to sell Refined Glycerine in 4<sup>th</sup> quarter of 2019 for the amount of 1.06 million Baht.

### **1.4 Sea Freight Service**

Revenues from Sea Freight Services operated by the subsidiary (AIL), in 2019 and 2018 were 16.49 million Baht and 54.11 million Baht, respectively. The decreased revenue was caused by stopping the Overseas service to external customers and is expected to support operations within the business group.

## **2. Other Income**

Other Income which consist of storage tank fees, sales of scrap materials, interest income, gain on changes in fair value of short-term investment, and gain on exchange rates, storage tanks rental, etc.

In 2019, the Company had revenue from insurance claimed for 13.33 million Baht.

The Company and its subsidiaries had revenue from Other Income in 2019 and 2018 for 3.19 million Baht and 8.12 million Baht. The other income has decreased from 2018 by 4.93 million Baht as results from the decreased in fair value of short-term investment by 1.77 million Baht, interest income by 1.40 million Baht, storage tanks fees by 0.87 million Baht, and gain on exchange rates by 0.62 million Baht.

### **Cost of Sales and Services**

The Company and subsidiaries' cost of sales and services as of 2019 was 2,046.23 million Baht and the ratio of cost of sales over total revenue was 103.31%, as of 2018 was 1,534.44 million Baht with the ratio of 98.19%, which increased by 5.12%, where the reasons are summarized as follows ;



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AI Energy Public Company Limited

ทะเบียนเลขที่ 0107556000311

## 1. Cost of Sales- Biodiesel, Edible Oil and By-products

The Company's ratio of cost of sales to total revenue in 2019 has increased from 2018 by 1.55%. The Company is affected by the material cost price during the 1<sup>st</sup> quarter to the beginning of 4<sup>th</sup> quarter of 2019. The Company has raw material on-hand price higher than products selling price since the price of CPO has been decreased continuously, then can be managed in the end of 4<sup>th</sup> quarter, where the CPO price was increased.

- The Biodiesel's ratio of cost of sales to total revenue in 2019 was increased from 2018 to 1.24% or increased by 1.26%. The Company had tried to efficiently manage production yields and maintain inventory turnover within 30 days to prevent the cost of sales increase from the keeping stocks. The volatility of CPO price is also a major factor in the profitability of the Company.
- The Edible Oil's ratio of cost of sales to total revenue in 2019 was increased from 2018 to 8.96% or increased by 10.15%, where the Company possible to generate profit from this business unit since there were Made to Order that the Company can control margin and CPO's price fluctuation. However, due to the storage of CPO cannot separated, the production costs are still volatile according to the price of the raw material during the changed period.
- The By-products' ratio of cost of sales to total revenue in 2019 was increased from 2018 to 6.36% or increased by 5.94%. The Company has determined the cost of sale according to the market price of the expected products to be sold. In 2019, the market price of the products lowered continuously, thus the cost of sales were higher than the selling price. Hence, the allowance for the diminished in value of inventory (NRV) for 4.00 million Baht of Crude Glycerine that already under the confirmed contracts. The Company has allocated the cost of the products according to the market price.

## 2. Cost of Refining Service

The ratio of cost of refining service to revenue was decreased by 5.92% from 2019 to 2018. The refining service's volumes also share the Company's overhead costs, which help to maintain production cost as low as possible. The Company is still profitable regularly because there is no risk of fluctuations in the price of CPO.



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AI Energy Public Company Limited

ทะเบียนเลขที่ 0107556000311

- The ratio of the cost of refining services to revenue for RBD Palm oil for biodiesel was 67.62% in 2019 which decreased from 2018 was 73.54%, and in the past years, the company continued to have profit margin of this segment.
- The refining service for Edible, in 2019 the company had no transaction.

### 3. Refined Glycerine

In the year 2019, the Company had the ratio of cost of sales to revenue from Refined Glycerine for 116.04 % since the Company did not sell crude glycerine since the 4<sup>th</sup> quarter of 2018 in order to use them in Refined Glycerine's production. Therefore, the Company had to realize the allowance for the diminished in value of the Crude Glycerine that expected to produce to Refined Glycerine (NRV) for 40.00 million Baht. This is due to the oversupply of Crude and Refined Glycerine in the global market, whilst the Indonesia' government has announced to increase the proportion of biodiesel blends in diesel to B30 in the 4<sup>th</sup> quarter of 2019 which resulting in overflow of Crude Glycerine into the market and exceed the demand. Hence, the Crude and Refined Glycerine in the world market declined.

### 4. Cost of Sea Freight Service

The cost of sea freight services increased by 81.62% in 2019 from 2018. Due to the termination of service to external customers and support for the business group.

### Selling Expenses

The Company and its subsidiaries' selling expense consist of domestic freight. As of 2019 was 19.63 million Baht, which increased by 11.30 million Baht or 135.57% from 8.33 million Baht in 2018. The increased in selling expense was in co-relation to the increased in quantities sold in 2019, and the commission increased to 3.72 million Baht.

### Administration Expenses

The Company and subsidiaries' administration expenses in 2019 of 78.10 million Baht which decreased by 1.77 million Baht from administration expenses the amount of 79.87 million Baht in 2018.





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In 2019, the subsidiaries have realized the provision for impairment of subsidiary (AIL)'s Vessel for 1.62 million Baht, decreased by 15.78 million Baht from 2018. Also, the provision for impairment of subsidiary (AIPT)'s property, plant and equipment for 17.40 million Baht.

### **Financial Cost and Tax Expense**

The Company and subsidiaries have financial cost in 2019 of 3.71 million Baht and 0.001 million Baht in 2018. In 2019, the Company and subsidiaries have loaned from the related-parties to use as working capital.

In 2019 the Company and subsidiaries had tax expense of 4.41 million Baht and 3.20 million Baht in 2018. In 2019, the Company had written-off deferred income tax as tax expense for 4.15 million baht because it is expected not to use as tax benefits.

Please be informed accordingly

Yours Sincerely,

AI Energy Public Company Limited

(Miss Pimwan Thareratanavibool)

Managing Director

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