



บริษัท น้ำตาลครบุรี จำกัด (มหาชน)

**KHONBURI SUGAR PUBLIC COMPANY LIMITED**



**Opportunity Day: Quarter 2 – 2014**

**4 September 2014**

# Agenda

**I. Operating Results 1H-2014**

**II. Investment Update**

**III. Global Sugar Update**

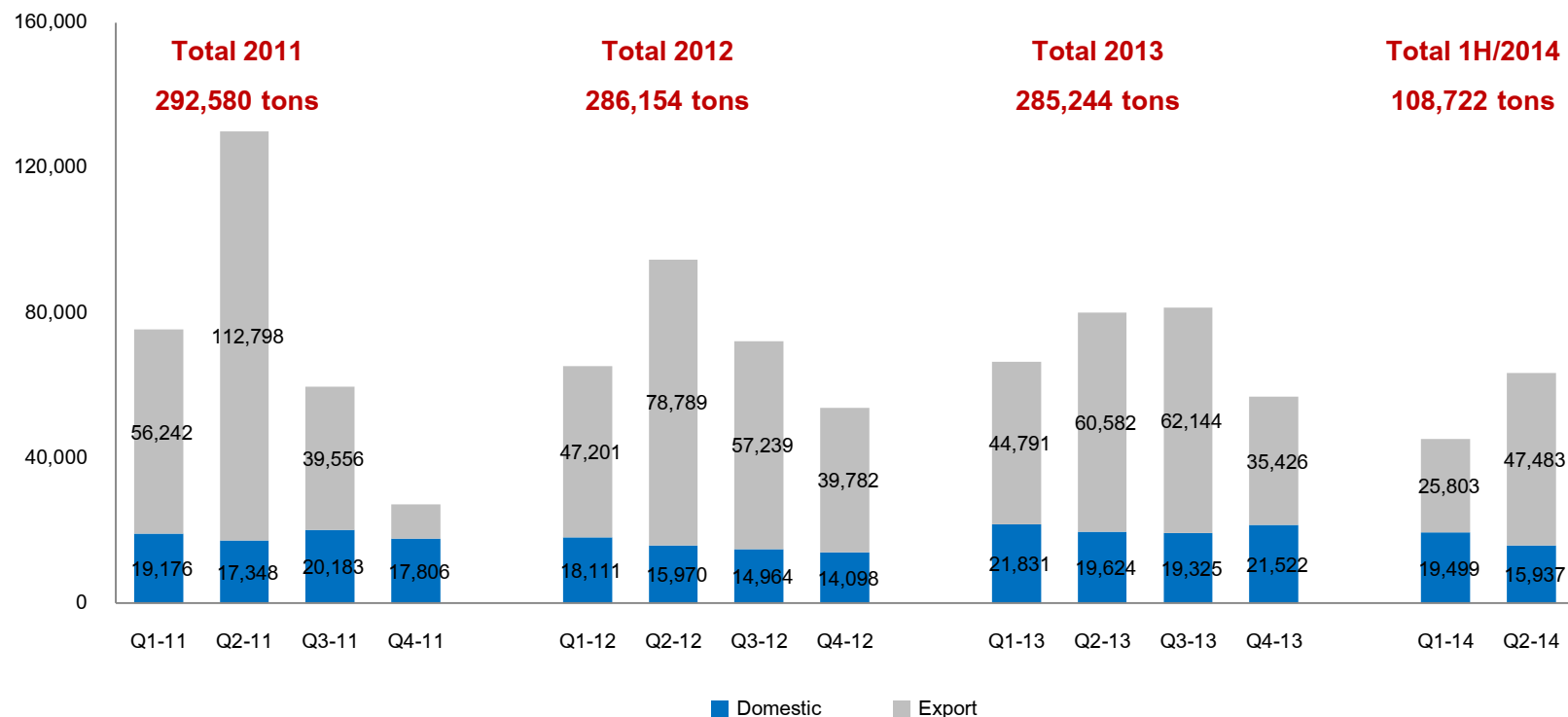
**IV. Q&A**

## Summary of Operating Results

|                         | Q2-2014 | Q2-2013 | % change | 1H-2014 | 1H-2013 | % change |
|-------------------------|---------|---------|----------|---------|---------|----------|
| Total Revenues (THB mm) | 1,569   | 1,805   | -13.1%   | 3,139   | 3,282   | -4.3%    |
| Net Profit (THB mm)     | 91      | 186     | -50.8%   | 357     | 495     | -27.9%   |
| Gross margin            | 16.7%   | 25.5%   | -8.8%    | 21.8%   | 25.3%   | -3.5%    |
| EBITDA margin           | 11.1%   | 15.9%   | -4.8%    | 17.7%   | 22.0%   | -4.3%    |
| EBIT margin             | 7.9%    | 13.4%   | -5.4%    | 14.6%   | 19.4%   | -4.7%    |
| Net margin              | 5.8%    | 10.3%   | -4.5%    | 11.4%   | 15.1%   | -3.7%    |

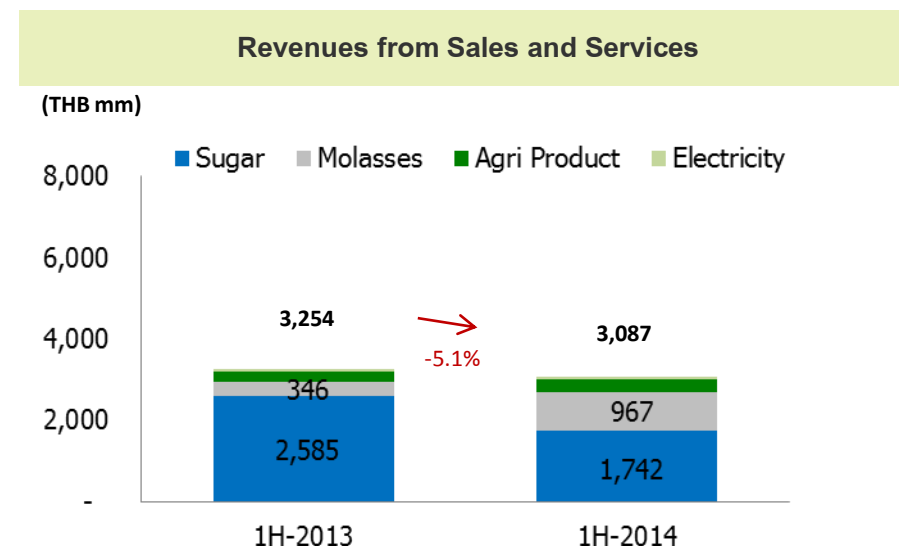
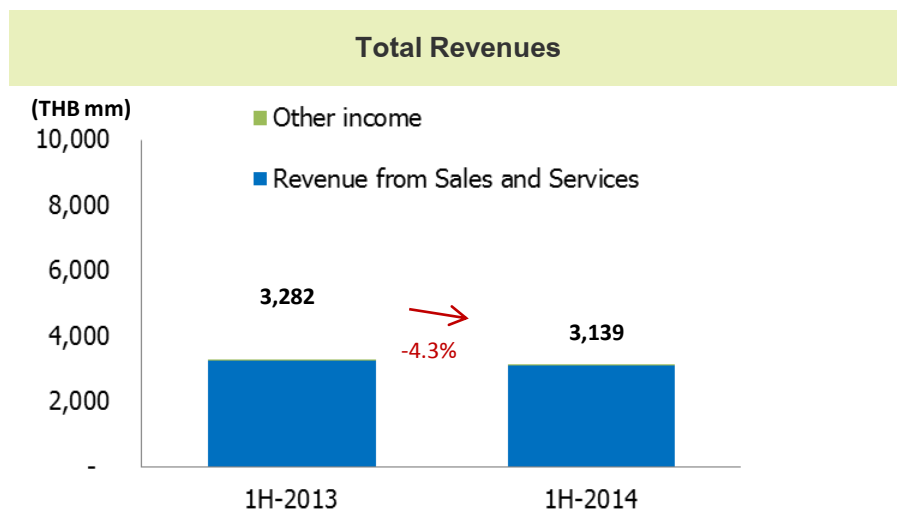
# Quarterly Sale Volume

(Tons)



|                              | 2011    | 2012    | 2013    | 2014        |
|------------------------------|---------|---------|---------|-------------|
| Cane crushed (mm tons)       | 2.88    | 2.55    | 2.55    | 2.51        |
| Sugar Yiled (kgs/ tons cane) | 102.2   | 98.9    | 97.2    | 106.7       |
| Sugar purchased (tons)       | -       | 34,512  | 45,528  | 40,570      |
| Sugar sale volume (tons)     | 292,580 | 286,154 | 285,244 | ~300,000(E) |
| TCSC's avg price (Cent/lb)   | 22.41   | 24.50   | 21.43   | 18.43       |

# Total Revenue Analysis



- KBS's total revenues for 1H2014 decreased by 4.3 % from the same period last year
- Main factors are lower global sugar price and delay in sugar's export sale volume
- THB 539 mm increased from trading molasses

# Revenues from Sales and Services

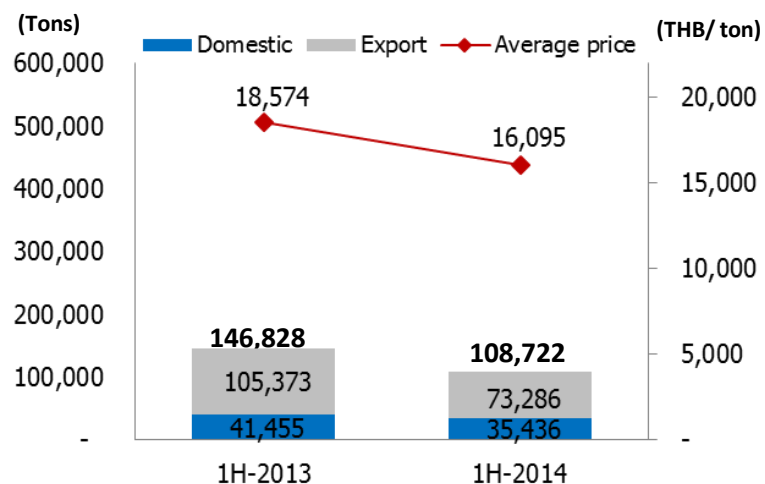
## Revenues from Sales and Services

(Unit: THB mm)

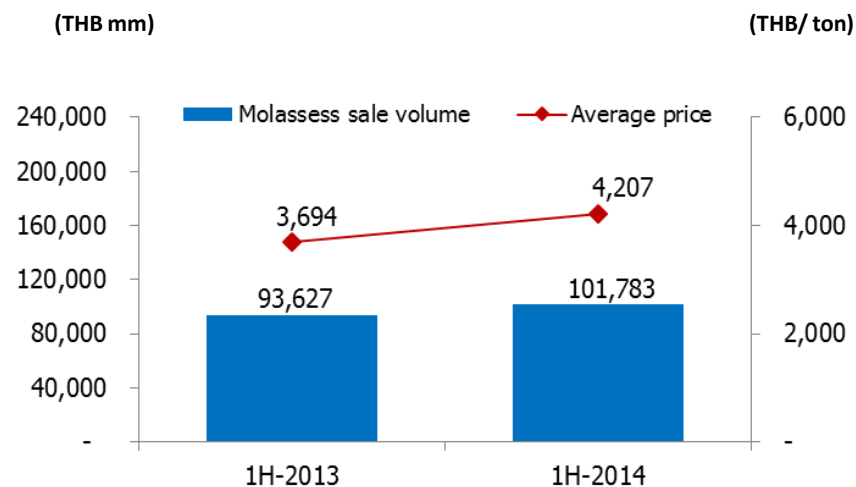
| Revenues              | 1H-2013      | 1H-2014      | % change     |
|-----------------------|--------------|--------------|--------------|
| Sugar                 | 2,585        | 1,742        | -32.6%       |
| Molasses (by-product) | 346          | 428          | 23.8%        |
| Trading Molasses      | -            | 539          | -            |
| Agri product          | 274          | 304          | 10.8%        |
| Electricity           | 49           | 74           | 52.2%        |
| <b>total</b>          | <b>3,254</b> | <b>3,087</b> | <b>-5.1%</b> |

- Sales of sugar decreased , mainly due to 13.3% reduction in average price and 26.0% drop in sugar sale volume
- The total sales of molasses (by-product) increased by 23.8% resulting from 13.9% increase in average price

## Sugar Sale Volume and Average Price



## Molasses Sale Volume and Average Price



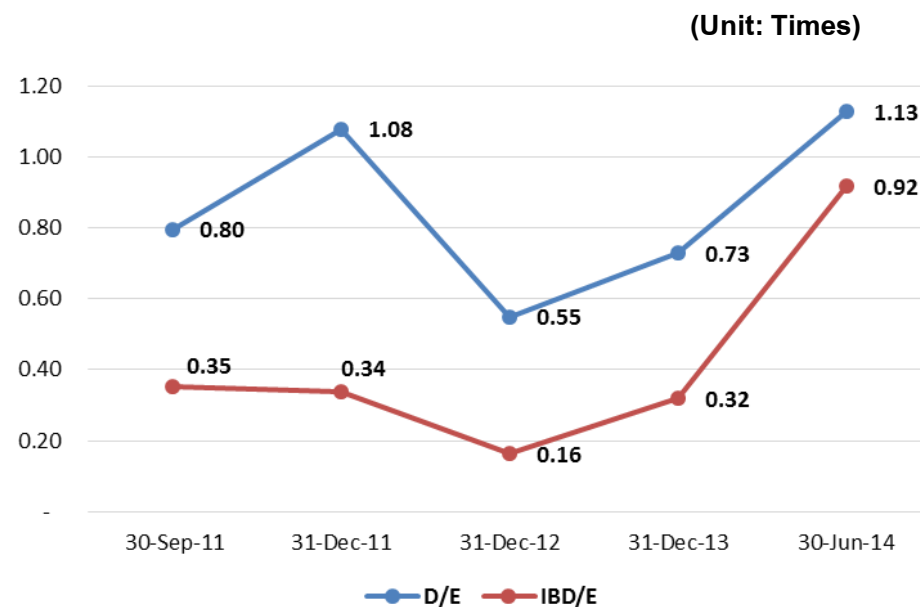
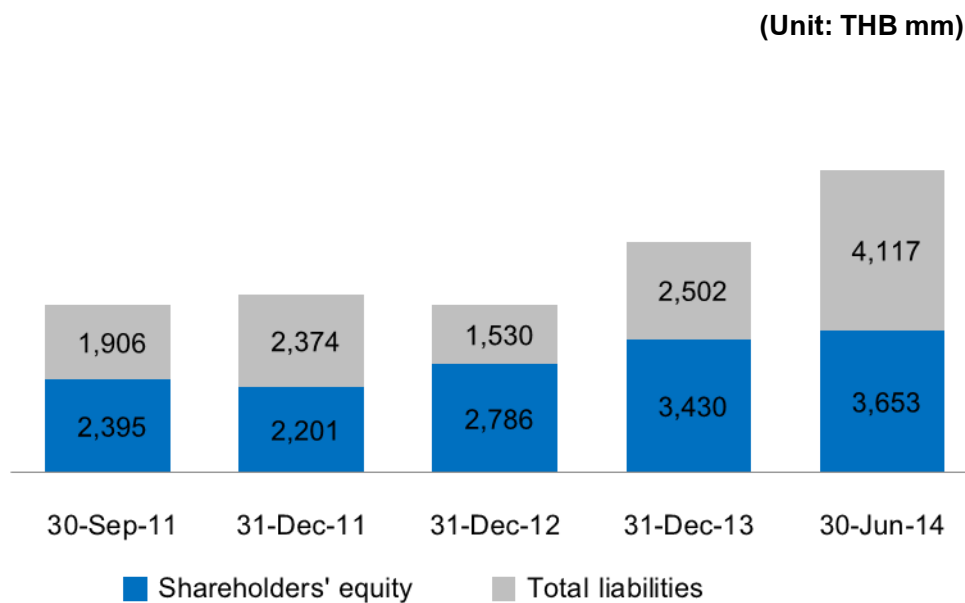
# Margin Analysis

## Margin Comparison 2011 – 1H2014

|                   | YE-2011 | YE-2012 | YE-2013 | 1H- 2013 | 1H- 2014 |
|-------------------|---------|---------|---------|----------|----------|
| Gross margin      | 25.4%   | 20.3%   | 18.1%   | 25.3%    | 21.8%    |
| EBITDA margin     | 21.4%   | 17.0%   | 13.9%   | 22.0%    | 17.7%    |
| EBIT margin       | 19.6%   | 14.9%   | 10.5%   | 19.4%    | 14.6%    |
| Net Profit margin | 13.0%   | 10.8%   | 8.4%    | 15.1%    | 11.4%    |

Note: Including the gain on exchange rate in calculation the Gross Margin

## Balance Sheet Hi-Lights





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# Summary of Business Plans in Sugar & Related Businesses

## I. Sugar

- To be efficient, low-cost manufacturer

## II. Bio-Energy

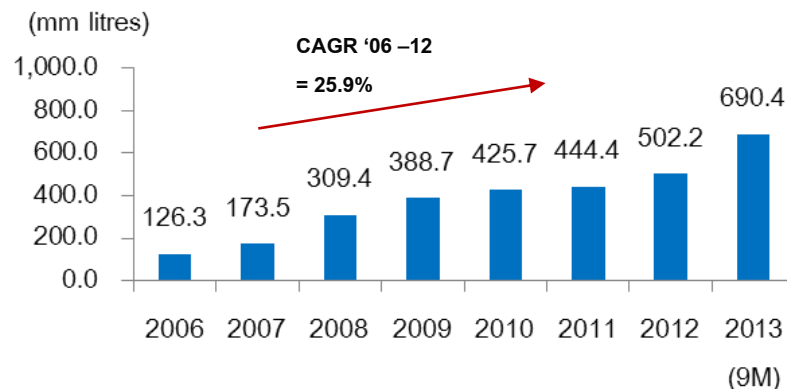
- To become integrated sugar manufacturer (Sugar Energy Complex)
  - Bio-mass Electricity
  - Ethanol

## 12,000 tons/day - Expansion Project in Sugar Production Line

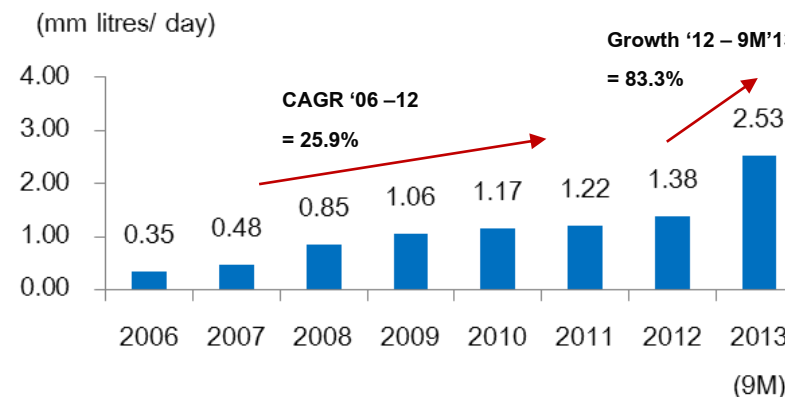
|                              |  |
|------------------------------|--|
| <b>Project Value</b>         | : THB 3,116 mm.  |
| <b>Construction period</b>   | : 15 months (Aug14-Nov15)  |
| <b>Commercial Production</b> | : Dec 2015   |
| <b>Financing Structure</b>   | : D/E 1.5x – 2.0x<br>( from Bank Loans and Internal Cash Flow)   |
| <b>Projection Return</b>     | : IRR = 15.9%<br>: EIRR = 24.7%  |
| <b>Key Benefits</b>          | <ul style="list-style-type: none"> <li>■ Gain economies of scales, Lower overall cost per unit</li> <li>■ In terms of risk management, the plant with a higher production capacity (crushing capacity) will have a lower risk of losing sugarcane to competing plants.</li> <li>■ Reduce cane traffic problem, Competent farmers will be more confident in expanding the plantations.</li> <li>■ Provide stable supplies of raw materials to electricity and ethanol plants in Sugar Energy Complex</li> </ul> |

# Ethanol Consumption and Production

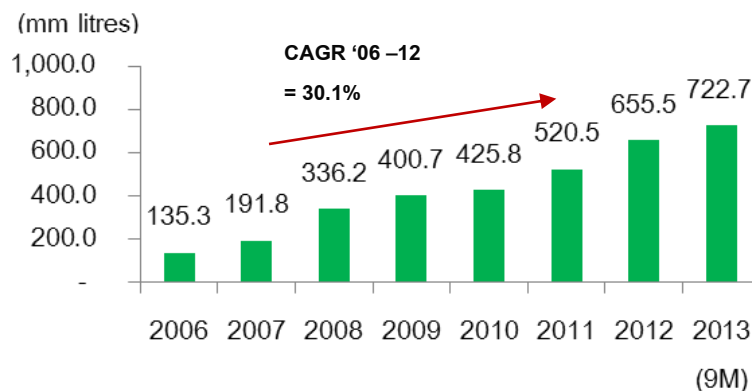
Thailand's Ethanol Yearly Consumption



Thailand's Ethanol Consumption Per Day



Thailand's Ethanol Yearly Production

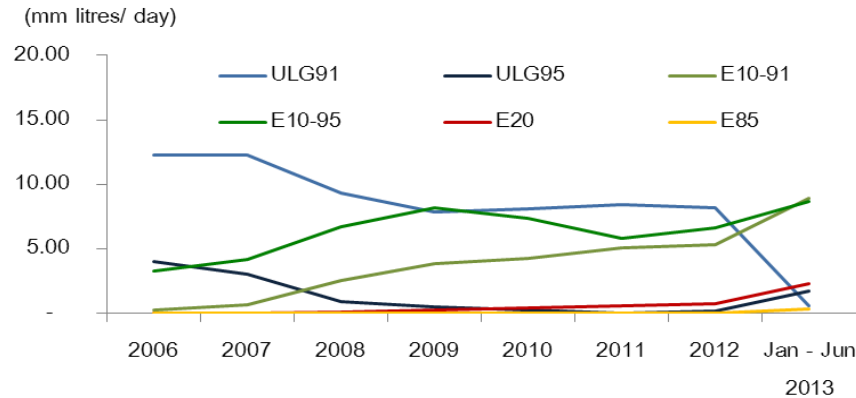


- Demand for ethanol in Thailand has growth at the rate of 26.9% from fiscal year 2006 to 2012
- At the beginning of 2013, the government enforced the ban of Benzene 91 (ULG91). This, coupled with the increasing popularity in E20 and E85 car models, led to upsurge in ethanol demand of 83.3% in the first 9 months of 2013, with YTD average consumption of 2.53 mm litres/day
- The peak is August 2013 with average consumption of 2.76 mm litres/day, with expert expecting the demand to reach 3.0 mm litres/day

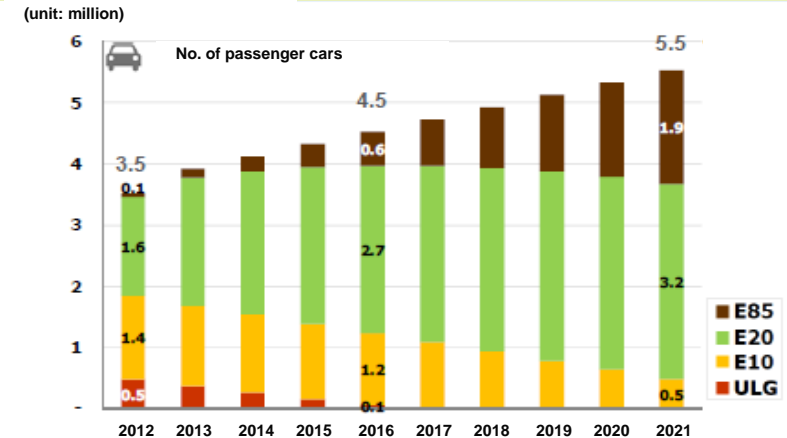
Source: Department of Energy Business, Ministry of Energy

# Ethanol Demand is Expected to Surge

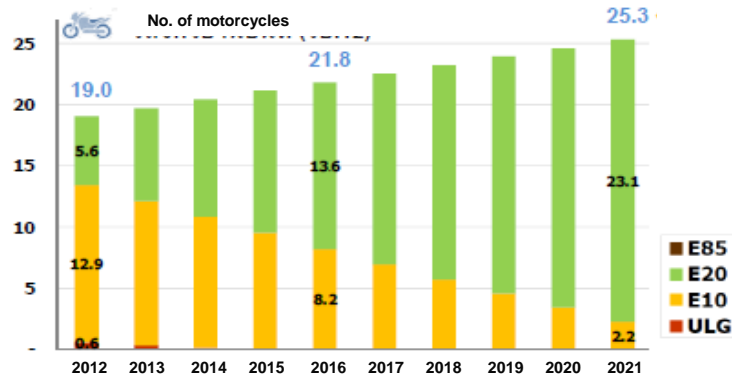
## Current Gasoline Usage in Thailand



## Rising Trend on E20/ E85 Car Models



## Rising Trend on E20 Motorcycle Models

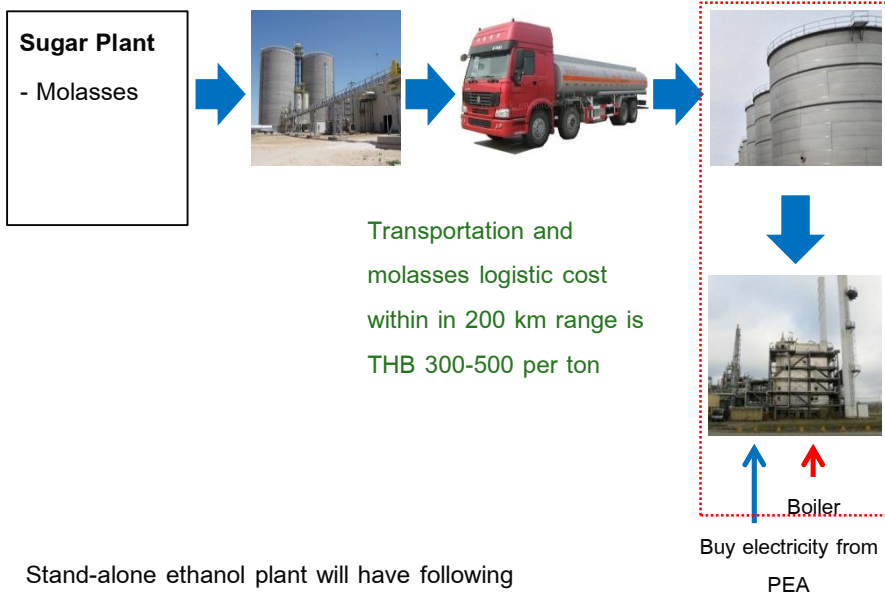


Source: Department of Land Transport, Petroleum Institution of Thailand

- After the ban of benzene 91 distribution since Jan 2013, there witnessed sharp increase in the consumption of E-10 (both 91 and 95)
- As more E-20 and E-85 compatible car and motorcycle models will come to the market to replace old models, the Petroleum institute of Thailand has predicted the demand for ethanol to reach 9.4 mm ltr/day by 2021, or 15.3% mm ltr/day

# Advantage of Ethanol with Sugar Factory over Stand-Alone

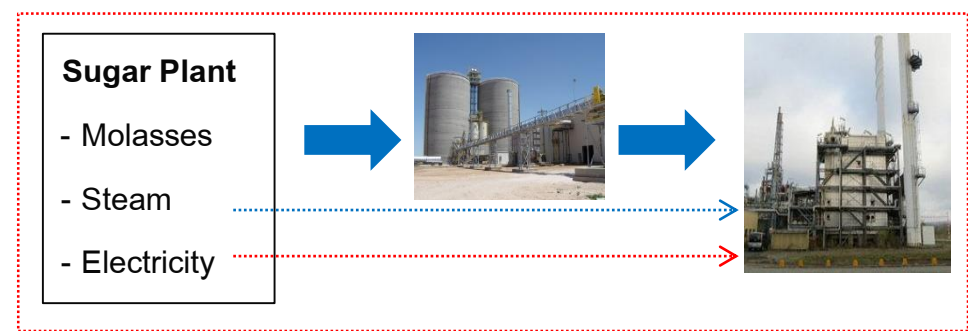
## Stand-alone Ethanol Plant



Stand-alone ethanol plant will have following disadvantages

- Need to pay transportation cost for molasses of approx. THB 400 per ton
- Need to invest in boiler and molasses tank
- Need to plan for and purchase the fuel & power

## Ethanol Plant with Sugar Factory (Sugar Complex)



Ethanol plant with sugar factory (sugar complex) will have following advantages

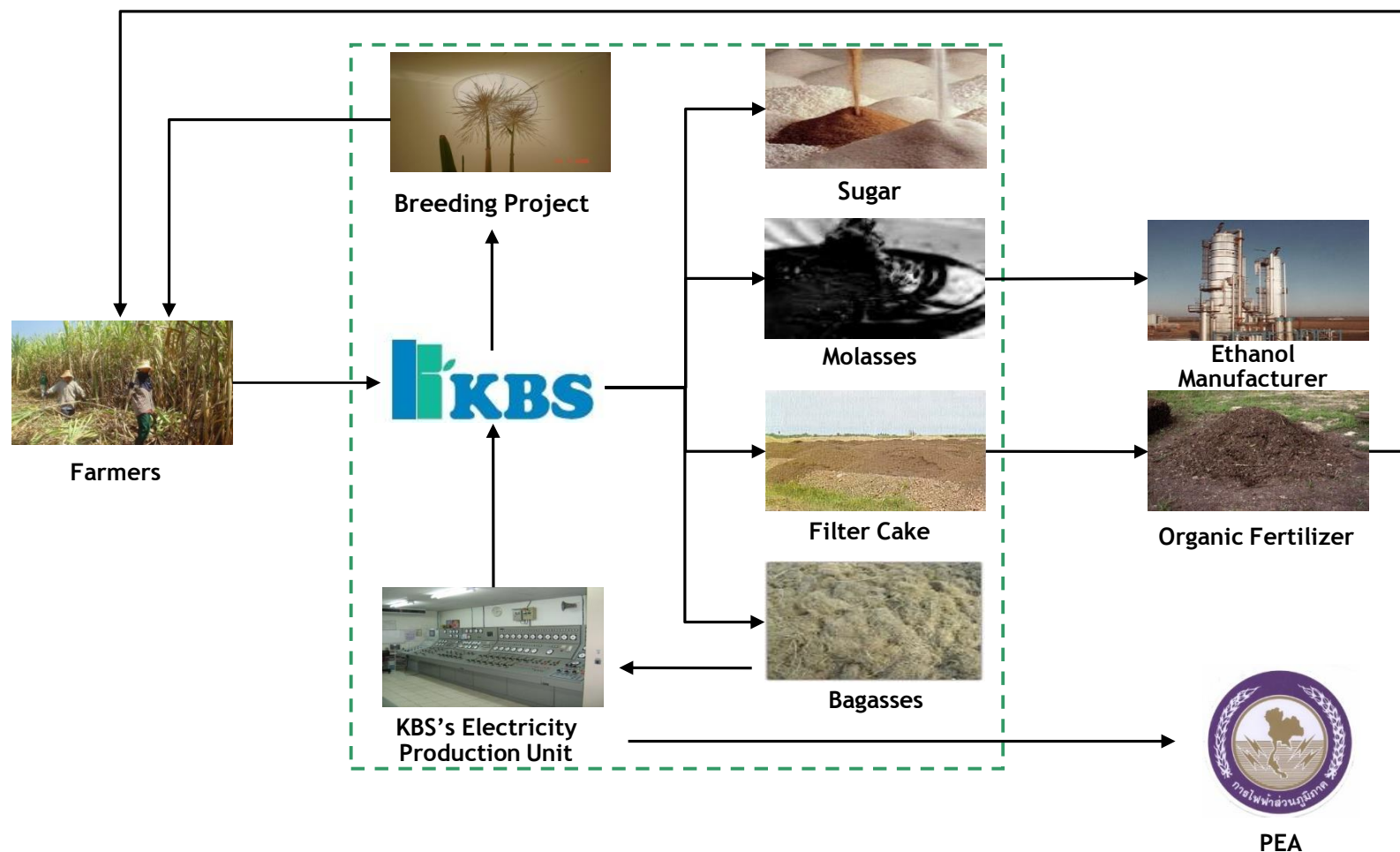
- Decrease transportation cost of molasses about THB 400 per ton. The ethanol production cost will decrease THB 1.67 per litre or THB100 mm per year (200,000 Liter per day)
- No investment cost on boiler and molasses tank
- Plan energy and power together with sugar factory and power plant units
- Production cost of ethanol from molasses lower than produced by tapioca
- In case of downtrend sugar price, raw sugar can be also produced the ethanol directly.



## 200,000 Litres/Days - Ethanol Plant Project

|                              |  |
|------------------------------|--|
| <b>Project Value</b>         | : THB 1,176 mm.  |
| <b>Construction period</b>   | : 15 months (Aug14-Nov15)  |
| <b>Commercial Production</b> | : Dec 2015   |
| <b>Financing Structure</b>   | : D/E 1.5x – 2.0x<br>( from Bank Loans and Internal Cash Flow)   |
| <b>Projection Return</b>     | : IRR = 15.5%<br>: EIRR = 22.6%  |
| <b>Key Benefits</b>          | <ul style="list-style-type: none"> <li>■ Overall margin increase through favorable ethanol margin</li> <li>■ Risk diversification against sugar business</li> <li>■ Better profit optimization in various sugar and ethanol price cycle</li> </ul> |

# Cane + Sugar Supply Chain





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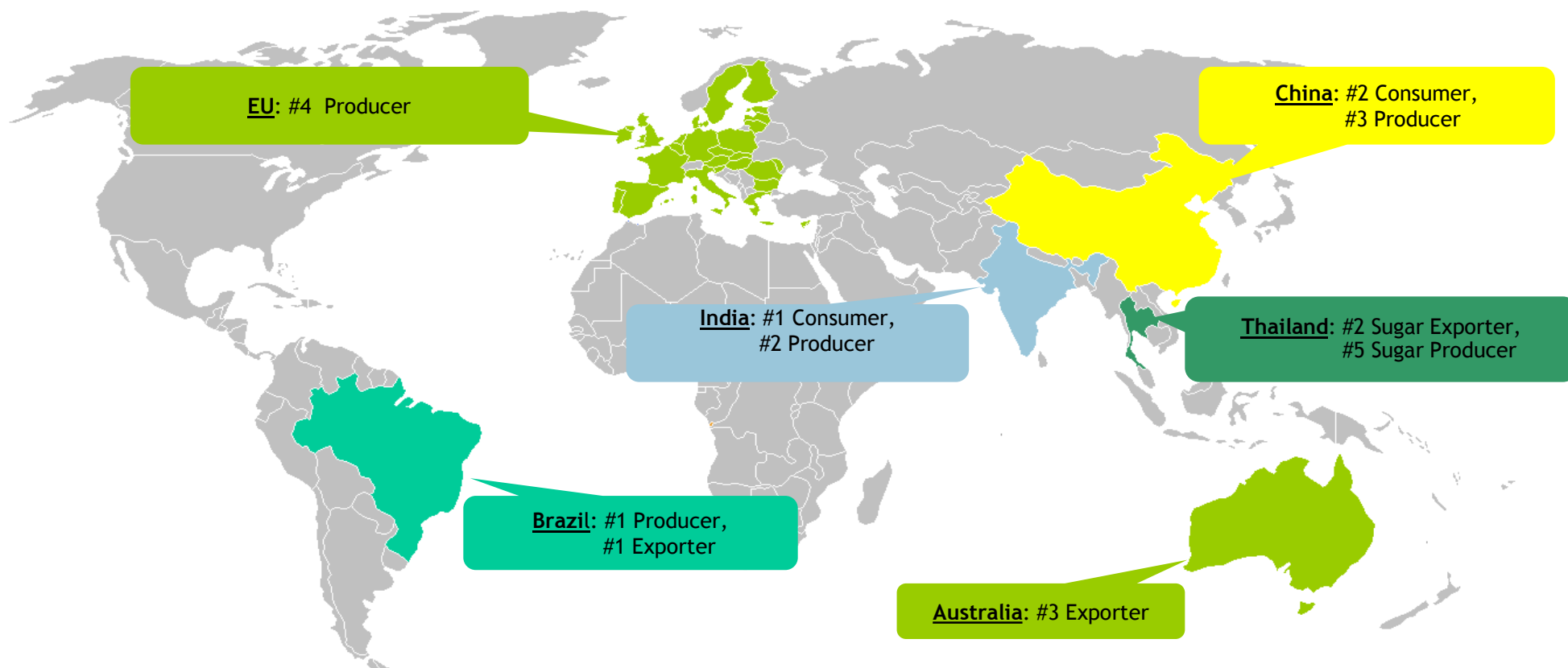
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## World Sugar Price Movement ( NY#11 )



# Global Sugar Players



# Global Sugar Update (2014/2015 Crop)

## Brazil (Central – South)

- December 2013 – February 2014 rain is only 50% of normal level.
- The 2014/15 Brazilian sugar season started from April 2014 with the weather remained dry over the crushing season. The favorable weather may result in good amount of milling and industrial yield but the ending season will be finished about 1 month earlier.
- The latest UNICA estimate revision to 546 million tons from 580 million tons of cane crushed vs 596 million tons last year.
- The return on ethanol production, therefore, looks more favorable as compared to current sugar price at 16-17 cents/lb. Consequently, the sugar-ethanol production proportion will swing in favor of ethanol

## Australia

- In 2013/14 season, sugar production is 4.25 mm tons (-3 % form 2012/13 season)
- In 2014/15 season, a stable production is expected

## EU

- Final 2013/14 sugar beet production at 16.5 mm tons (-3.5% from previous season) due to dropping in planted area

# Global Sugar Update (2013/2014 Crop)

## India

- 2013/14 season of India finished May'14, which sugar production at 24 mm tons (+ 4% yoy).
- There are delays of cane crushing in Uttar Pradesh and Maharashtra due to the dispute between cane farmers and mills over late payments.
- India is estimated to have opening stocks close to 8 mm tons this season, and sugar mills will need to sell some of sugar stock to meet the payment to farmers. With further payment delay, farmer may be forced to decide to switch to other crops.
- Due to export price too low compare to domestic, the government gave export subsidy US\$54 per ton for raw sugar export over the next 2 years, the exact subsidy amount will be revised every two months base on fluctuations in the INR/US\$ rate.
- India increased import duty from 15% to 40% due to 16 cents flat price low.

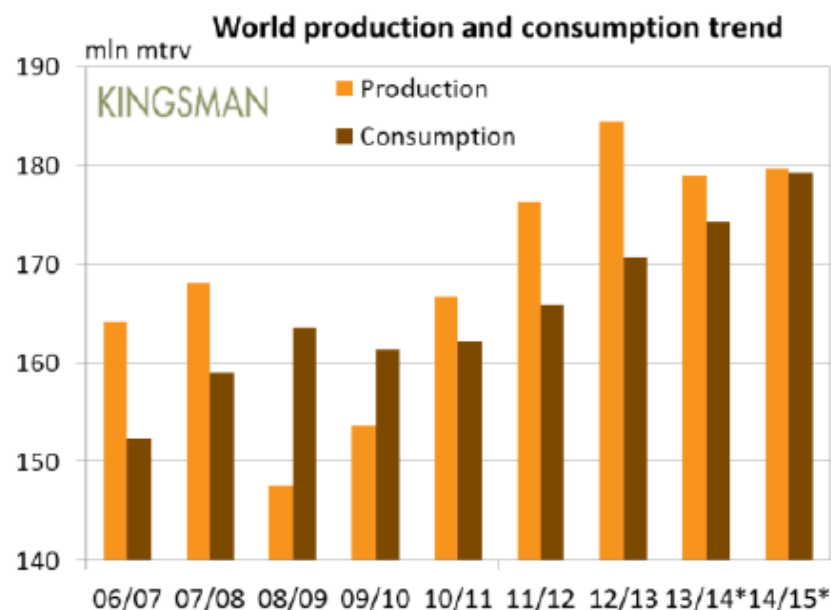
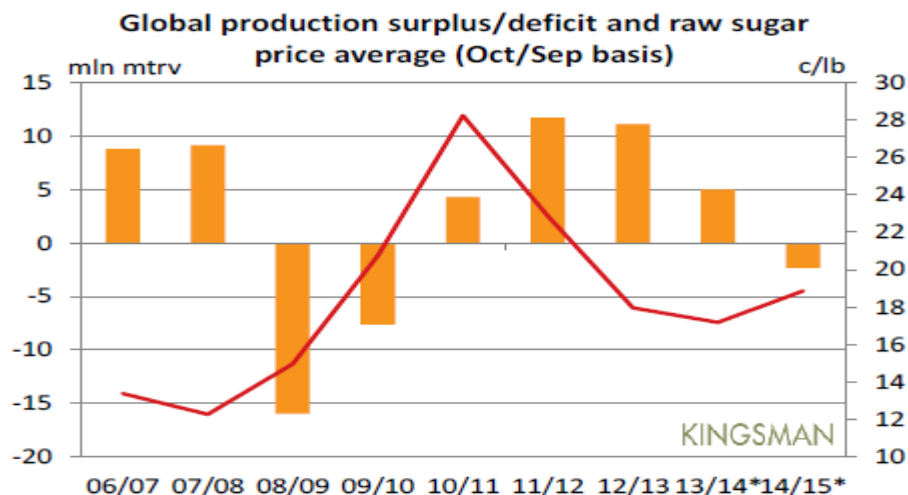
## China

- 2013/14 crop of China finished Mar'14 which sugar production at 13.9 mm tons (+2% yoy)
- Chicness government and private refinery had imported over 4.00 mm tons during 2014.
- Domestic stocks are closed to 7.0 mm tons this season, and domestic sugar price are falling steadily due to over importing raw sugar
- Chinese sugar production for 2014/15 season would decrease as the new state policy shifts towards direct subsidies. This could lead to less incentive for farmers to plant cane

# Sugar Demand & Supply Outlook

## 2014/15

- The surplus has dropped as prices weakened, However, the reduction in global surplus is more the result of higher demand(due to lower price) than a drop in production.
- Reversion from the 4 years surplus to deficit of 3.0 mm tons in 2014/15 production season
- Production is expected to be slightly higher than this year. The reduction of sugar production since 2012/13 due to world price fell below production cost in many countries.
- Consumption is expected bigger jump more than 2.0% or 4.0 mm tons
- C S. Brazil, latest UNICA estimate revision to 546 million tons from 580 million tons of cane crushed due to dry weather.



***Thank You***  
**Q&A**