

# AERONAUTICAL RADIO OF THAILAND LTD.

No. 106/2019  
4 July 2019

## CORPORATES

**Company Rating:** AAA  
**Outlook:** Stable

**Last Review Date:** 05/07/18

### Company Rating History:

Date	Rating	Outlook/Alert
17/07/15	AAA	Stable
28/06/13	AA+	Stable
24/07/09	AA	Stable
23/05/08	AA	Positive
12/07/04	AA	Stable
25/07/00	AA	-
26/02/98	A+	-
18/09/97	AA-	-
03/07/97	AA	Alert Negative
02/02/95	AA	-

### Contacts:

Pramuansap Phonprasert  
pramuansap@trisrating.com

Chanaporn Pinphithak  
chanaporn@trisrating.com

Parat Mahuttano  
parat@trisrating.com

Sauwarot Jirachaiphithak  
sauwarot@trisrating.com



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## RATIONALE

TRIS Rating affirms the company rating on Aeronautical Radio of Thailand Ltd. (AEROTHAI) at “AAA”. The rating reflects AEROTHAI’s monopolistic status, since it is the main provider of air navigation service in the country. The rating also reflects its good safety record, strong financial standing, and experienced management team. TRIS Rating holds the view that the company’s credit profile is enhanced by its unique and important role to the Thai government and the likelihood that it would receive extraordinary support from the government in a stress scenario.

## KEY RATING CONSIDERATIONS

### Strategic role in Thailand’s aviation industry

AEROTHAI has the critical role in the Thai aviation industry as the government designated the company to be the main provider of air traffic control services in Thailand. The Thai government, as a contracting state of the International Civil Aviation Organization (ICAO), entrusted the company to provide services complying with the ICAO’s standards and practices for the safe and efficient air transportation over the Bangkok Flight Information Region (BKK FIR).

AEROTHAI is a state enterprise with 91.0% of its equity stake held by the Thai government. The government supervises AEROTHAI’s operations via the Civil Aviation Authority of Thailand (CAAT), part of the Ministry of Transport. The government designates nine of AEROTHAI’s 11 board members, while the other two members are appointed by the member airlines. AEROTHAI’s corporate plan is subject to the approval of the Ministry of Transport, while the capital expenditure budget is subject to the approval of the Ministry of Transport, Office of the National Economics and Social Development Council (NESDC), and the Cabinet, respectively. TRIS Rating believes that in a stress scenario, the government will likely provide full support to the company on a timely basis.

### Good safety performance

AEROTHAI has a good track record of safety. The company’s rate of air traffic incidents has been below the global average during the past five years. Owing to the substantial increase in air traffic volume in the past decade, the company has invested in the new air traffic control system to improve its safety performance and enhance its serving capability. The new air traffic control system will be fully operational in September 2019.

### Strong financial performance

The company has continued to post strong financial result. AEROTHAI reported over collections of Bt2,358 million in fiscal year 2018 (FY2018) and Bt1,545 million for the first six months of FY2019 (6M/FY2019). The good financial results were driven by the continued growth in air traffic. In FY2018 and 6M/FY2019, air traffic volume at the six airports operated by Airports of Thailand PLC (AOT) grew by 6.3% and 5.3%, respectively. This growth has pushed AEROTHAI’s revenue higher by 7.0% in FY2018 and 2.4% in 6M/FY2019. TRIS Rating believes the demand for air travel will remain strong, driven by good prospects for the tourism industry. We project AEROTHAI’s revenue will grow by 5% per annum during FY2019-FY2021.

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## Declining leverage

AEROTHAI's total debt has continued to decline. Total debt outstanding was Bt508 million at the end of March 2019, down from Bt571 million in FY2018. As the company has high amount of liquid assets, the adjusted debt to capitalization ratio has been at 0% since FY2017. Over the next three years, AEROTHAI plans capital expenditures of Bt5,030 million, financed by its internal cash flow. Based on this plan, TRIS Rating estimates that AEROTHAI's adjusted debt to capitalization ratio will remain to stay at 0% in FY2021.

## Strong liquidity profile

AEROTHAI's financial liquidity is strong. At the end of March 2019, the company's sources of funds comprised cash-on-hand and short-term investments of Bt6,451 million and short-term revolving credit facilities of Bt880 million from banks. TRIS Rating forecasts funds from operations (FFO) in FY2019 to be around Bt2,300 million. These sources of funds are sufficient to cover the Bt127 million in long-term debt repayment obligations coming due in FY2019 plus planned capital expenditures of Bt1,250 million for FY2019.

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## BASE-CASE ASSUMPTIONS

During FY2019 to FY2021, TRIS Rating's assumptions for AEROTHAI's performance are as follows:

- Revenue will grow by around 5.0% per annum.
- Overcollection will decline over the next three years as operating expenses are forecast to rise by around 12.0% per annum.
- Total investments will be Bt5,030 million over the forecast period.
- The adjusted debt to capitalization ratio will remain at 0% in FY2021

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## RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that AEROTHAI will maintain its status as the main provide of air navigation services in the country for the foreseeable future. We also expect its solid operating track record will continue. In addition, we expect liquidity will remain strong.

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## RATING SENSITIVITIES

A rating downgrade may occur, although this is highly unlikely, if AEROTHAI's linkage with the government weakens to the degree that it changes our view concerning the likelihood of the government providing extraordinary support to the company.

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## COMPANY OVERVIEW

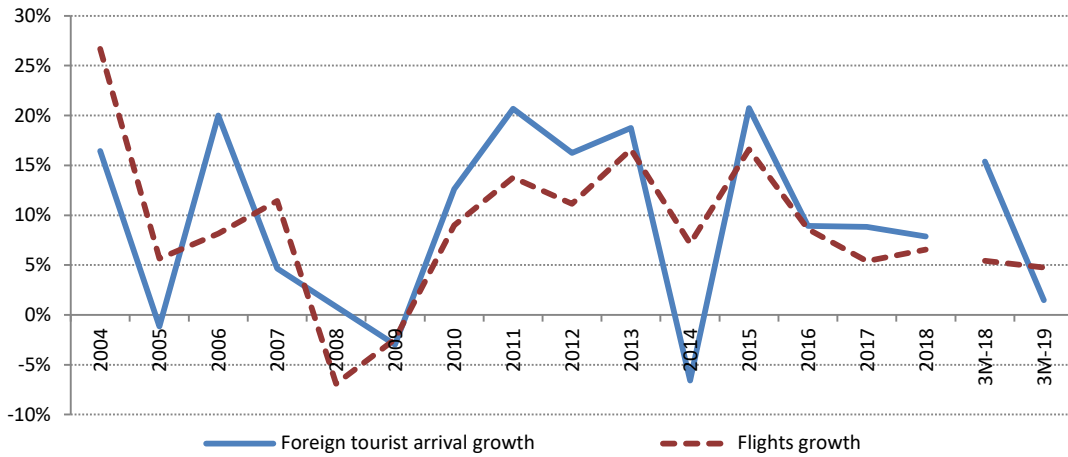
AEROTHAI was established in 1948 by a group of airline companies, with the consent of the Thai government, as Thailand's main air navigation service provider. In 1963, the government acquired most of AEROTHAI's shares, making AEROTHAI a state enterprise under the supervision of the Ministry of Transport. As of March 2018, the Thai government held a 91.0% stake in the company, with the balance held by 106 member airlines. The ownership stakes of the individual airlines are reallocated annually based on the proportion of flights each airline operates in Thailand. The company has been appointed by the Thai government to operate the country's air traffic control and aeronautical communication services, which are critical functions for air transportation safety and the security of the country.

Air traffic control services can be divided into three functions: aerodrome control, approach control, and area control. Aerodrome control refers to air traffic control services within five nautical miles of an airport. Approach control covers the area beyond five up to 50 nautical miles. Beyond that distance, the responsibility is under the area control services of the BKK FIR covering all the Thai airspace, the Gulf of Thailand, and some parts of the Andaman Sea.

At its inception in 1948, AEROTHAI was responsible only for area control services. In 1998, the government transferred aerodrome control and approach control services at all provincial airports to the company. This move gave AEROTHAI monopoly status in air traffic services. Currently, the company provides air traffic control services at 36 airports nationwide.

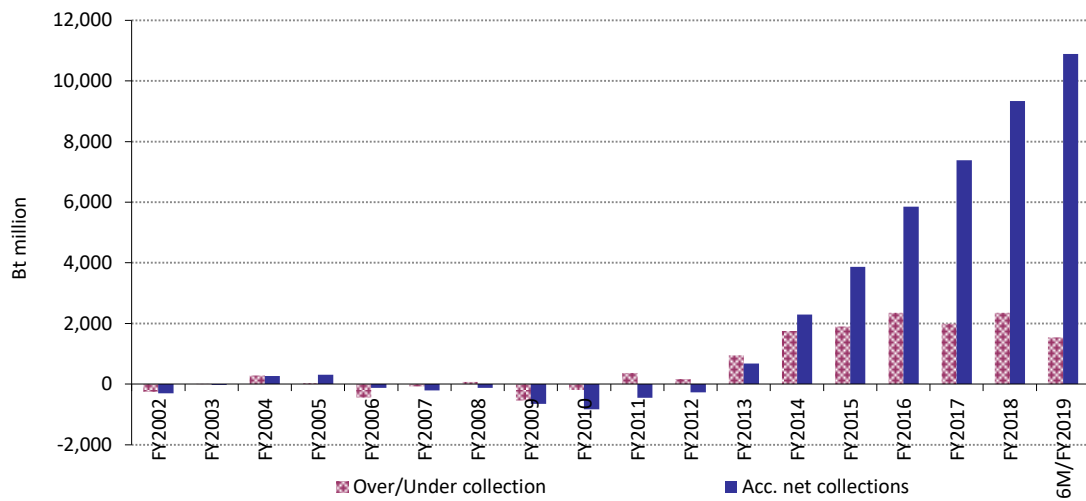
**KEY OPERATING PERFORMANCE**

**Chart 1: Growth in Foreign Tourist Arrivals and the Number of Flights through AOT's Airports**



Sources: 1) Tourism Authority of Thailand (TAT)  
2) Airports of Thailand PLC (AOT)

**Chart 2: AEROTHAI's Overcollection/Under-recovery and Accumulated Net Collections**



Note: In FY2003, the Thai government waived a remittance of Bt269.91 million.  
Source: AEROTHAI

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Bt million

	Oct-Mar 2019	-----Year Ended 30 September -----			
		2018	2017	2016	2015
Total operating revenues	6,662	12,975	12,122	11,580	10,540
Operating income	1,889	3,344	2,838	3,179	2,476
Overcollection/Under-recovery)	1,545	2,358	2,000	2,363	1,909
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,110	3,485	2,910	3,237	2,709
Funds from operations (FFO)	2,105	3,472	2,871	3,171	2,622
Adjusted interest expense	5	14	38	66	88
Capital expenditures	522	1,061	1,529	1,781	2,056
Total assets	16,315	15,878	14,429	13,386	12,090
Adjusted debt	0	0	0	804	891
Adjusted equity	1,025	1,000	965	920	889
<b>Adjusted Ratios</b>					
EBITDA interest coverage (times)	454.33	254.19	75.72	48.80	30.88
Debt to EBITDA (times)	0.00	0.00	0.00	0.25	0.33
FFO to debt (%)	n.m.	n.m.	n.m.	394.47	294.22
Debt to capitalization (%)	0.00	0.00	0.00	46.62	50.05

\* Consolidated financial statements

\*\* Annualized from the trailing 12 months

n.m. = Not meaningful

## RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Government-Related-Entity, 6 June 2017
- Rating Methodology – Corporate, 31 October 2007

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**Aeronautical Radio of Thailand Ltd. (AEROTHAI)**

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<b>Company Rating:</b>	AAA
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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