

AERONAUTICAL RADIO OF THAILAND LTD.

No. 116/2020
31 July 2020

CORPORATES

Company Rating: AAA
Outlook: Stable

Last Review Date: 04/07/19

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	-

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RATIONALE

TRIS Rating affirms the company rating on Aeronautical Radio of Thailand Ltd. (AEROTHAI) at “AAA” with a “stable” rating outlook. The rating reflects our assessment on AEROTHAI’s status as a government-related entity (GRE), integrally linked to the government and our view of an almost certain likelihood that AEROTHAI would receive timely and sufficient support from the Thai government in the event of financial stress.

KEY RATING CONSIDERATIONS

Integrally linked to the government

AEROTHAI is a state enterprise with 91.0% of its shares held by the Thai government. The company essentially acts as an arm of the government in ensuring safety and security in the territorial airspace. The government supervises AEROTHAI’s operations via the Civil Aviation Authority of Thailand (CAAT), under the Ministry of Transport. The government designates nine directors out of AEROTHAI’s 11 members of its board of directors, 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 its capital expenditure budget is subject to the approval of the Ministry of Transport, Office of the National Economic and Social Development Council (NESDC), and the Cabinet, respectively. In addition, the company has to submit its debt service and borrowing plan to the Public Debt Management Office (PDMO) under the Ministry of Finance. TRIS Rating believes that in a stress scenario, the government would provide full support to the company on a timely basis.

Critical role to the government

We view that AEROTHAI plays a critical role in the Thai aviation industry and to the government as the main air navigation service provider in Thailand. The Thai government, as a contracting state of the International Civil Aviation Organization (ICAO), has entrusted the company to provide air traffic control services in conformance with the ICAO’s standard and practices for safe and efficient air transportation over the Bangkok Flight Information Region (BKK FIR). As air traffic control is a matter of safety and security, it is highly unlikely that the government would allow a private entity to fulfill the function. AEROTHAI is also an important part of the government’s plan to raise the competitiveness of Thailand as a major aviation hub in Asia.

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. In view of the substantial increase in air traffic volume in the past decade, the company has invested in a new air traffic management system to improve its safety performance and enhance its service capability. The new air traffic management system became fully operational in February 2020.

Impacts of the Coronavirus Disease 2019 (COVID-19)

We expect AEROTHAI’s financial performance will deteriorate significantly during fiscal year (FY) 2020 (October 2019- September 2020) and FY2021, before gradually recovering in FY2022. Thailand’s aviation industry has been severely affected by the COVID-19 pandemic. Travel restrictions and lockdown measures have caused a drastic drop in AEROTHAI’s revenue since

the third quarter of FY2020. We believe domestic air traffic will gradually pickup after the virus outbreak has been largely contained domestically and the government has eased lockdown measures. Domestic air transport has resumed, and the government has launched a stimulus package to boost domestic tourism. However, the timing for the resumption of international air traffic remains uncertain as the number of infections is still on the rise globally, which means travel restrictions could continue to be in place until a vaccine is widely available. In addition, the global recession could hamper travel demand even after the pandemic has been largely contained. To mitigate the impacts of the pandemic, the company has started cutting unnecessary operating expenses and postponed major capital expenditures. However, its cost structure is largely fixed.

Under our base-case scenario, we project AEROTHAI's revenue for FY2020 and FY2021 to drop by approximately 50% compared with the FY2019 level, before recovering in FY2022 to around 5% below the 2019 level. We project AEROTHAI to post under-collection of THB4-THB5 billion during FY2020-FY2021, and THB500 million in FY2022. AEROTHAI operates on a cost-recovery basis, with service fees estimated and set to cover all costs. We expect the company will adjust its service fees to cover the accumulated under-collection once the aviation industry is back to normalcy.

Rising leverage

We expect the company's adjusted debt to gradually increase to THB6 billion in FY2022. Although the company has plenty of liquid assets in FY2020, the company plans to seek bank loans to finance the huge shortfalls anticipated over the next two years and to cover its investments. AEROTHAI has planned for capital expenditures of THB3.9 billion over the next three years. Based on this, we estimate that AEROTHAI's adjusted debt to capitalization ratio will rise to 85% in FY2022.

Sufficient liquidity

We expect AEROTHAI to have adequate liquidity for the next 12 months. At the end of March 2020, the company's sources of funds comprised cash-on-hand and short-term investments of THB7.4 billion, and short-term revolving credit facilities from banks of THB780 million. These sources of cash are sufficient for its planned uses of funds in the next 12 months. The debt repayment schedule over the next 12 months consists of THB127 million in long-term obligations plus planned capital expenditure of THB1.2 billion for FY2020. In FY2020, we forecast the company will record a net cash outflow from operations of around THB3.0 billion.

BASE-CASE ASSUMPTIONS

During FY2020 to FY2022, TRIS Rating's assumptions for AEROTHAI's performance are as follows:

- Revenue to drop by approximately 50% compared with the FY2019 level in FY2020 and FY2021, and then improve in FY2022 to around 5% below the 2019 level.
- The company to post under-collection in the range of THB4-THB5 billion during FY2020-FY2021, and THB500 million of under-collection in FY2022.
- Total investment of THB3.9 billion over the forecast period.
- Adjusted debt to capitalization ratio to increase to 85% in FY2022.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that AEROTHAI will maintain its status as a GRE, integrally linked to the government, and its important role to the government as the main provider of air navigation services in the country.

RATING SENSITIVITIES

A rating downgrade could occur if AEROTHAI's linkage to the government, or its importance to the government has changed, to the degree that it changes our view concerning the likelihood of the government providing timely and sufficient support to the company in times of financial stress.

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 2020, the Thai government held a 91.0% stake in the company, with the balance held by 112 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 navigation 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 between five and 50 nautical miles of an airport. Beyond that distance, responsibility comes 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 34 airports nationwide.

AEROTHAI operates on a cost-recovery basis, with service fees estimated and set to cover all costs. When revenues do not cover costs, if for example traffic volume is lower than projected, member airlines are required to fund the amount of the under-recovery. Conversely, if there is a surplus, AEROTHAI will refund the amount of overcollection to the member airlines. However, in the past, the member airlines allowed AEROTHAI to retain any overcollection, as a reserve to offset future under-recovery. AEROTHAI has never experienced significant difficulties in collecting flight charges from its clients.

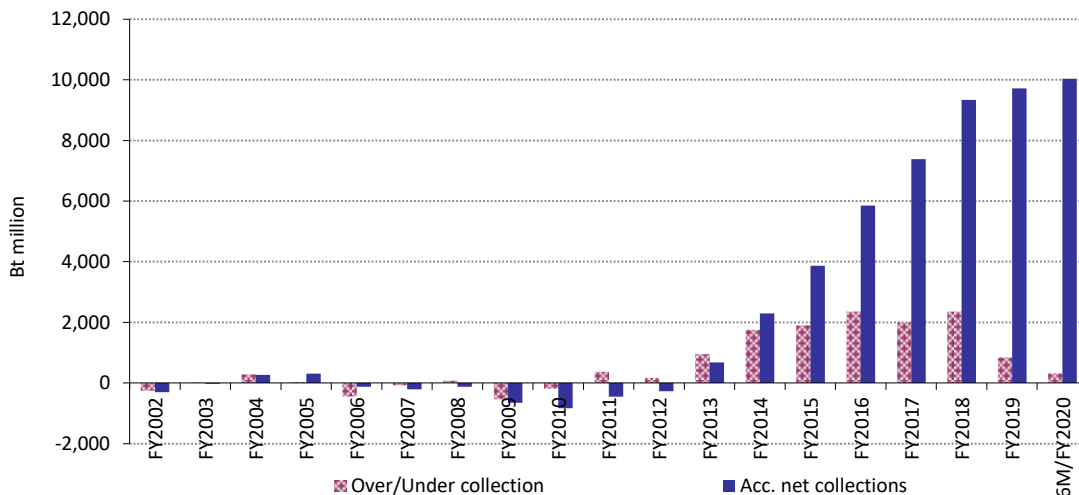
KEY OPERATING PERFORMANCE

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 THB269.91 million.
Source: AEROTHAI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Oct-Mar 2020	-----Year Ended 30 September -----			
		2019	2018	2017	2016
Total operating revenues	6,073	13,042	12,975	12,122	11,580
Earnings before interest and taxes (EBIT)	322	857	2,372	2,039	2,429
Overcollection (Under-recovery)	318	848	2,358	2,000	2,363
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	924	2,054	3,485	2,910	3,237
Funds from operations (FFO)	920	2,045	3,472	2,871	3,171
Adjusted interest expense	4	9	14	38	66
Capital expenditures	270	1,187	1,061	1,529	1,781
Total assets	16,617	17,344	15,878	14,429	13,386
Adjusted debt	0	0	0	0	804
Adjusted equity	1,052	1,043	1,000	965	920
Adjusted Ratios					
EBITDA interest coverage (times)	244.71	229.57	254.19	75.72	48.80
Debt to EBITDA (times)	0.00	0.00	0.00	0.00	0.25
FFO to debt (%)	n.m.	n.m.	n.m.	n.m.	394.47
Debt to capitalization (%)	0.00	0.00	0.00	0.00	46.62

* Consolidated financial statements

** Annualized from the trailing 12 months

n.m. = Not meaningful

RELATED CRITERIA

- Government-Related-Entity Rating Methodology, 30 July 2020
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Aeronautical Radio of Thailand Ltd. (AEROTHAI)

Company Rating:	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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