

AERONAUTICAL RADIO OF THAILAND LTD.

No. 81/2017

12 July 2017

Company Rating: AAA

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
06/07/15	AAA	Stable
28/06/13	AA+	Stable
24/07/09	AA	Stable
23/05/08	AA	Positive
19/10/01	AA	Stable

Contacts:

Pramuansap Phonprasert
pramuansap@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Parat Mahuttano
parat@trisrating.com

Sakda Pongcharoenyong
sakda@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company rating of Aeronautical Radio of Thailand Ltd. (AEROTHAI) at “AAA”. The rating reflects the monopolistic status of AEROTHAI as the sole air navigation service provider in the country, as well as its good safety record, strong financial standing, and experienced management team. The company’s credit profile is enhanced based on TRIS Rating’s view on the potentially extraordinary support from the government in the event of financial distress. However, these strengths are partially offset by the susceptibility of the air transport industry to event risks.

AEROTHAI is a state enterprise with 91% of its equity stake held by the Thai government and the remaining 9% held by a number of member airlines. The Thai government, as a contracting state of the International Civil Aviation Organization (ICAO), is responsible for providing safe and efficient air transportation over the Bangkok Flight Information Region (BKK FIR), which covers Thailand, the Gulf of Thailand, and some parts of the Andaman Sea. AEROTHAI is designated by the government as the sole provider of air traffic control services in Thailand. AEROTHAI is entrusted by the government to ensure that its operations comply with the ICAO’s standards and recommended practices.

AEROTHAI’s operations are supervised by the government through the Civil Aviation Authority of Thailand (CAAT) 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. The government representatives are from the Ministry of Transport and the Ministry of Finance. AEROTHAI’s corporate plan and capital expenditure budget are subject to the approvals from the Ministry of Transport and the Cabinet. As a non-profit organization, AEROTHAI structures its air navigation charging mechanism based on a cost-recovery scheme and adjusts the pricing structure from time to time as it deems appropriate. Any changes in AEROTHAI’s air navigation service charges must be approved by the Civil Aviation Board.

The air traffic control services normally comprise more than 90% of AEROTHAI’s total revenues. The air traffic is projected to grow in line with the tourism and economic growth, especially in the Asia Pacific region. For many years, the Thai tourism industry has been boosted by the increasing number of foreign and domestic travelers. The combined air traffic volume at the six airports operated by Airports of Thailand PLC (AOT) grew by 9.8% in fiscal year 2016 (FY2016) and 6.8% year-on-year (y-o-y) in the first six months of FY2017. The increase in low-cost carrier (LCC) passengers continues to be a key driver of air traffic growth.

In tandem with the air traffic growth, AEROTHAI posted a revenue growth of 9.9% during FY2016 and 4.4% in the first six months of FY2017. As a result, AEROTHAI reported an over collection of Bt2,363 million in FY2016 and Bt1,234 million for the first six months of FY2017. During FY2017-FY2019, TRIS Rating forecasts AEROTHAI’s revenue to grow by approximately 6% per annum, supported by a growing demand from both domestic and international air travel. However, the company’s over collection is expected to decline over the next three years as AEROTHAI plans to raise its operating expenses by around 8% per annum.

AEROTHAI’s total debt declined, falling from Bt3,395 million in FY2015 to Bt1,630 million at the end of March 2017. The total debt to capitalization ratio

improved to 63.4% in the first six months of FY2017, compared with 79.2% in FY2015. Over the next three years, AEROTHAI plans to invest Bt6,460 million, largely to improve its air traffic control system. Based on the projected capital expenditure, TRIS Rating estimates that AEROTHAI's debt to capitalization ratio will be around 60% during the next three years.

AEROTHAI's funds from operations (FFO) rose from Bt3,267 million in FY2015 to Bt3,703 million in FY2016, and stood at Bt1,994 million in the first six months of FY2017. The FFO to total debt ratio improved from 96.2% in FY2015 to 127.6% in FY2016 and 220.7% (annualized, from the trailing 12 months) in the first six months of FY2017. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio also improved, rising from 30.7 times in FY2015 to 48.8 times in FY2016 and 68.3 times in the first six months of FY2017. During the next three years, TRIS Rating estimates that AEROTHAI's FFO to total debt ratio will remain high at over 100% and the EBITDA interest coverage ratio will be above 25 times.

At the end of March 2017, AEROTHAI's financial liquidity was strong, supported by cash on hand and short-term investment of Bt3,846 million and short-term revolving credit facilities of Bt880 million from banks. During the next 12 months, the company has long-term debt repayment obligations of around Bt542 million. TRIS Rating expects AEROTHAI to maintain a debt service coverage ratio of more than 1.5 times over a three year projection period.

Since the ICAO raised concerns over aviation safety standard in Thailand in 2015, the Thai government has been working to address the concerns and is in the process of implementing new safety procedures that comply with the ICAO's standard. The government expects to resolve the issue with the ICAO within 2017. Because of the concerns raised by the ICAO, some countries have restricted charter flights from Thailand-based airlines. The process for securing approvals for new international routes has become stricter. However, TRIS Rating does not expect the issue with the ICAO to cause a significant negative effect on AEROTHAI.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation of AEROTHAI's continued monopolistic status as the sole air navigation service provider in the country in the foreseeable future and its ability to maintain good operating records. In addition, TRIS Rating expects the company to sustain a strong liquidity position. A rating downgrade scenario may occur if its linkage with the government is weakened to the degree that it changes TRIS Rating's view on the prospect of extraordinary support from the government.

Aeronautical Radio of Thailand Ltd. (AEROTHAI)

Company Rating:

AAA

Rating Outlook:

Stable

Financial Statistics and Key Financial Ratios

Unit: Bt million

	Oct-Mar 2017	----- Year Ended 30 September -----				
		2016	2015	2014	2013	2012
Revenues	6,093	11,580	10,540	9,478	7,996	6,883
Gross interest expense	25	66	88	127	159	165
Over (under) collections	1,234	2,363	1,909	1,756	952	175
Funds from operations (FFO)	1,994	3,703	3,267	2,815	2,047	1,186
Capital expenditures	504	1,781	2,054	1,259	847	715
Total assets	12,985	13,386	12,090	9,863	8,183	6,459
Total debt	1,630	2,901	3,395	4,040	4,683	4,543
Shareholders' equity	942	920	889	855	825	802
Depreciation	428	808	712	655	739	715
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	68.3	48.8	30.7	19.9	11.6	6.4
FFO/total debt (%)	220.7 *	127.6	96.2	69.7	43.7	26.1
Total debt/capitalization (%)	63.4	75.9	79.2	82.5	85.0	85.0

* Annualized from the trailing 12 months

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

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