

# THAI AIRASIA CO., LTD.

No. 20/2019  
21 February 2019

## CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 01/06/18

### Company Rating History:

Date	Rating	Outlook/Alert
30/03/17	A-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Thai AirAsia Co., Ltd. (TAA) and the ratings on TAA's senior unsecured debentures at "A-". The ratings reflect TAA's position as the leading low cost carrier (LCC) airline in Thailand; its cost efficiency; synergy with AirAsia Berhad (AAB) and its affiliate, AirAsia Group; and positive outlook for the Thai tourism industry. However, these strengths are partially offset by intense competition in the airline industry plus TAA's high leverage, exposure to volatile fuel prices, currency risk, and event risks.

## KEY RATING CONSIDERATIONS

### Profitability is expected to recover

TRIS Rating expects TAA's operating profit margin to recover, due mainly to lower jet fuel cost. During 2019-2021, we project jet fuel price will be in the range of US\$77-US\$82 per barrel, compared with US\$85 per barrel in 2018. As a result, TAA's operating profit margin would recover to a range of 22%-24% in the next three years.

In 2018, TAA's profitability was hit by a surge in jet fuel cost, despite the company's non-fuel cash cost reduction. In the first nine months of 2018 (9M2018), even though TAA reduced its non-fuel cost per available seat kilometer (ASK) to Bt1.00 from Bt1.05 per ASK in 9M2017, the company's operating profit margin declined to 19.3% from 25.6% in the same period. This was due mainly to the 35% year-on-year (y-o-y) increase in jet fuel price, to US\$84 per barrel in 9M2018 from an average of US\$62 per barrel in 9M2017.

### Ticket prices will increase with more rationale competition

We believe airline operators could raise ticket prices moderately as the competition among low cost airlines is more rationale. In 2018, the cut throat competition limited TAA's ability to increase ticket prices despite a substantial increase in fuel cost. We believe the competition in the low cost airline segment will still be tough. However, the steep drop in the profitability of airline operators from the 2018 surge in jet fuel price will temper the competition in the next few years. Hence, we project TAA will be able to increase its ticket prices by around 3% to 5% per annum in the next three years.

### Growth in tourist arrivals to support cabin factor

We expect the cabin factor of TAA will be improved in the next three years. This is based on our view that the number of Chinese tourists will bounce back to its previous high and other foreign tourist arrivals to Thailand will continue to grow. In the second half of 2018 (2H2018), the number of Chinese tourists dropped by 9.6% y-o-y to 4.60 million. Meanwhile, other foreign tourist arrivals to Thailand continued to grow by 8.6% to 14.19 million. Since Chinese tourists are the major portion of TAA's clients, TAA's cabin factor declined to 85.0% in 9M2018 from 87.1% in 9M2017. As Thailand is one of the world's top destinations for leisure, recreation, and holidays, we expect the prospects for the Thai tourism industry to remain strong and foreign tourist arrivals will continue to grow at a range of 5% to 10%. We also believe the number of Chinese tourists will bounce back in 2019 onward. Therefore, we project TAA's cabin factor will stay over 85% in the next three years.

## Receiving ongoing support and benefits from AirAsia Group

TAA benefits from the synergy with the AirAsia Group by pooling the procurement of aircraft and fuel hedging, increasing negotiating power to achieve cost savings. TAA also benefits from the AirAsia Group's operating and marketing network. The AirAsia Group has member airlines operating in six countries: Malaysia, Thailand, Indonesia, the Philippines, India, and Japan, covering over 130 destinations across Asia and the Asia-Pacific regions. TAA uses the same reservation and ticketing platform as the AirAsia Group. Customers can seamlessly book connecting flights to all destinations served by AirAsia affiliates.

## Leverage is expected to rise

We project TAA's leverage will gradually increase in the next three years. The company plans to increase their fleet to 78 aircraft in 2021 from 62 aircraft in 2018, mainly from operating leases. In addition, the company is building a training center worth around Bt1,500 million to be completed in 2020. Hence, the debt to capitalization ratio will increase to about 85% in 2021 from 76% in 2017 and the debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio will also increase to 4.2 times from 3.4 times.

## Sufficient liquidity

TAA's liquidity is considered sufficient. Its sources of funds comprised cash and liquid assets of Bt3,986 million and undrawn credit facilities of Bt4,830 million at the end of September 2018. Its funds from operations, excluding lease obligations, over the next 12 months are expected to be around Bt3,500 million. During the next 12 months, TAA will have debt repayment obligations of Bt2,172 million. Capital expenditures for 2019 were budgeted at around Bt828 million.

TRIS Rating believes TAA will comply with its financial covenants over the next 12 to 18 months. At the end of September 2018, the company's net liability to total equity ratio was 3.1 times and the net interest bearing debt to total equity ratio was 2.1 times, being complied with the financial covenants.

## BASE-CASE ASSUMPTIONS

During the next three years from 2019 to 2021, TRIS Rating's assumptions are as follows:

- TAA's revenues will grow at around 10% per annum.
- TAA's operating profit margins will stay at around 22%-24%.
- The average jet fuel price will range between US\$77-US\$82 per barrel.
- TAA's capital expenditures (excluding aircraft acquisition) will be Bt1,800 million.

## RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that TAA will maintain its dominant position in the LCC industry in Thailand. TAA's cost management efficiency and versatile operations are expected to withstand seasonal and external factors affecting the airline industry as a whole.

## RATING SENSITIVITIES

A rating upgrade is unlikely in the near term based on TAA's current financial profile. However, it could occur if both the ratio of adjusted debt to EBITDA is below 2 times and debt is sustained at 60%-65% of capitalization. A downside risk scenario will materialize if TAA's financial performance deteriorates substantially or if its leverage rises significantly above the current level.

## COMPANY OVERVIEW

TAA was founded in 2003 through a joint venture (JV) between AAB and Shin Corporation PLC or SHIN (formally renamed Intouch Holdings PLC (INTOUCH) on 31 March 2014). In 2006, SHIN sold its 51% stake in TAA to Asia Aviation PLC (AAV), a holding company established by TAA's management team at that time. AAV has held 55% of TAA's outstanding shares since 2012 by purchasing 3,555,600 newly-issued shares, resulting in AAB's shareholding diluted to 45%.

TAA is the leading LCC in Thailand. The company is a member of the AirAsia Group which launched its service under the Thai AirAsia brand in 2004. At the end of December 2018, TAA provided flight services on 62 international routes with 576 flights per week and 35 domestic routes with 808 flights per week. TAA's strategy is to provide the lowest fares, with quality service, safety, and reliability. Its service trajectories cover point-to-point international and domestic destinations within a four and a half hour flight distance from Thailand. Currently, the company operates seven hubs in Thailand: including Bangkok, Phuket, Chiang Mai, Krabi, U-Tapao, Hat Yai, and Chiang Rai.

For 9M2018, passenger fares accounted for the majority (80%) of the company's total revenue. The remaining 20% came

from other passenger-related service fees.

**KEY OPERATING PERFORMANCE**

**Table 1: Total Passengers and Market Share of TAA**

Unit: Million passengers

		2012	2013	2014	2015	2016	2017	9M2018
<b>International</b>	Industry	47.7	55.2	52.1	62.5	68.4	75.8	60.7
	TAA's passengers	3.3	4.1	4.8	5.6	6.5	7.3	6.0
	TAA's share (%)	6.9	7.5	9.2	8.9	9.4	9.7	9.9
<b>Domestic</b>	Industry	28.4	33.1	38.4	47.3	53.3	57.3	44.2
	TAA's passengers	5.0	6.4	7.4	9.3	10.8	12.5	10.0
	TAA's share (%)	17.6	19.2	19.3	19.6	20.2	21.7	22.7
<b>Total</b>	Industry	76.1	88.3	90.5	109.8	121.7	133.1	104.9
	TAA's passengers	8.3	10.5	12.2	14.8	17.2	19.8	16.1
	TAA's share (%)	10.9	11.9	13.5	13.5	14.2	14.9	15.3

Sources: 1) TAA  
2) Airports of Thailand PLC (AOT)

**Table 2: LCC Passengers and Market Share of TAA**

Unit: Million passengers

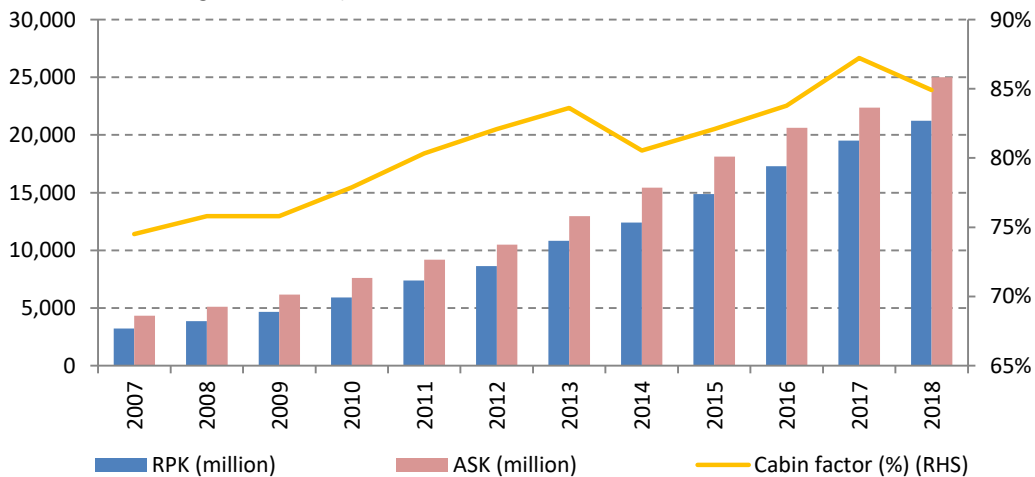
		2012	2013	2014	2015	2016	2017	9M2018
<b>International</b>	Industry	7.5	10.3	11.3	15.0	19.2	22.9	20.1
	TAA's share (%)	43.8	40.4	42.6	37.2	33.7	32.1	30.0
<b>Domestic</b>	Industry	14.4	18.0	24.1	31.3	35.5	39.5	31.6
	TAA's share (%)	34.8	35.3	30.7	29.6	30.3	31.5	31.8
<b>Total</b>	Industry	21.9	28.3	35.4	46.3	54.7	62.4	51.7
	TAA's share (%)	37.9	37.2	34.5	32.1	31.5	31.7	31.1

Sources: 1) TAA  
2) AOT

**Chart 1: TAA's Cabin Factor**

(ASK = Million Seat-Kilometers)

(RPK = Million Passenger-Kilometers)



Source: TAA

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Sep 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	30,027	36,902	33,054	30,344	25,980
Operating income	5,798	9,510	9,556	7,660	4,890
Earnings before interest and taxes (EBIT)	2,080	4,827	5,389	4,174	2,196
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,974	9,887	9,552	7,574	5,185
Funds from operations (FFO)	4,506	7,748	7,571	5,391	3,324
Adjusted interest expense	1,587	2,173	2,165	2,029	1,856
Capital expenditures	2,296	2,452	775	820	1,271
Total assets	37,901	38,902	32,739	29,008	25,689
Adjusted debt	38,052	33,156	33,123	30,260	27,573
Adjusted equity	8,254	10,622	9,289	7,257	6,201
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	19.31	25.77	28.91	25.24	18.82
Pretax return on permanent capital (%)	7.04	9.79	11.55	9.86	5.74
EBITDA interest coverage (times)	3.77	4.55	4.41	3.73	2.79
Debt to EBITDA (times)	4.38	3.35	3.47	4.00	5.32
FFO to debt (%)	17.57	23.37	22.86	17.81	12.06
Debt to capitalization (%)	82.17	75.74	78.10	80.66	81.64

## RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

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**Thai AirAsia Co., Ltd. (TAA)**

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<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
TAA205A: Bt1,000 million senior unsecured debentures due 2020	A-
TAA216A: Bt1,500 million senior unsecured debentures due 2021	A-
TAA225A: Bt600 million senior unsecured debentures due 2022	A-
TAA236A: Bt1,000 million senior unsecured debentures due 2023	A-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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