

THAI AIRWAYS INTERNATIONAL PLC

No. 179/2019
29 October 2019

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Negative

Last Review Date: 11/04/19

Company Rating History:

Date	Rating	Outlook/Alert
12/01/16	A	Stable
27/12/13	A+	Negative
17/12/10	A+	Stable
23/01/09	A	Stable
25/07/08	A+	Stable
12/07/04	AA-	Stable
11/09/03	AA-	-

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RATIONALE

TRIS Rating affirms the company rating on Thai Airways International PLC (THAI) and the ratings on THAI's outstanding senior unsecured debentures at "A", but revises the outlook to "negative" from "stable". At the same time, TRIS Rating assigns the rating of "A" with negative outlook to THAI's proposed issue of up to Bt10 billion in senior unsecured debentures. The proceeds from the new debentures will be used to refinance maturing debts and for investments.

The company rating is enhanced from THAI's stand-alone credit profile based on TRIS Rating's expectation that the government will provide strong support to the company due to its status as a state enterprise and national flag carrier. The stand-alone credit profile reflects its position as a leading international passenger airline in Thailand. The ratings, however, are constrained by rising financial leverage caused primarily by its aircraft acquisition plan and persistently the company's low operating efficiency. The ratings are also constrained by fuel price fluctuations and event risks that are inherent in the airline industry.

KEY RATING CONSIDERATIONS

State enterprise status underpins ratings

THAI's key rating driver is its status as a state enterprise, 51% owned by the Ministry of Finance (MOF). TRIS Rating believes that there is a high likelihood that the government will continue to provide financial support to the company when needed and on a timely basis as evidenced in the past when THAI had financial difficulty. The company is the national carrier of Thailand, operating domestic and international flights from its home base in Bangkok. The company's budget and investment plans are subject to Cabinet approval.

Intense competition continues to pressure passenger yield

We expect the intense competition in the airline industry will persist, which is likely to limit THAI's ability to improve THAI's passenger yield (passenger revenue per revenue passenger kilometer or RPK) from the current level. In the first six months of 2019 (6M2019), THAI was unable to raise its ticket prices due to the ongoing cut throat competition among airlines including both legacy airlines and low-cost carriers (LCCs). As a result, THAI's passenger yield declined to Bt2.18 per RPK in 6M2019, compared with Bt2.23 per RPK in the same period of the previous year. We believe the fierce competition will be prolonged, which is likely to continue to constrain THAI's ability to increase ticket prices. Hence, we project THAI's passenger yield to stay in the range of Bt2.18 per RPK to Bt2.21 per RPK during 2019-2021.

Profitability hampered by high non-fuel operating costs and lower yield, but recovery expected

In 6M2019, even though fuel costs dropped by 1% year-on-year (y-o-y), the operating profit margin declined to 10.8%, from 18.3% in 6M2018. The drop in profitability is explained by the rise in non-fuel operating costs coupled with the fall in passenger yield. In 6M2019, non-fuel costs per available seat kilometer (ASK) were Bt1.57, compared with Bt1.49 per ASK in 6M2018.

TRIS Rating expects THAI's profitability to gradually improve over the next few years. Under THAI's cost saving plan, the non-fuel costs per ASK is expected to gradually drop to around Bt1.54 per ASK in 2020-2021. We

assume the jet fuel price to stay at around US\$85 per barrel during the next few years. Based on this assumption, we project THAI's operating profit margin to recover to a range of 15%-17% during 2020-2021. However, since fuel cost represents around 30% of total cost, any sharp increase in fuel prices will affect THAI's operating profit margin.

Growth in tourist arrivals to support cabin factor

We expect the cabin factor to be in the range of 75%-80% over the next three years. This is based on our belief that the number of foreign tourist arrivals to Thailand will continue to grow, supporting THAI's cabin factor. In 7M2019, total foreign tourist arrivals to Thailand increased by 1.8% y-o-y to 23.06 million arrivals. With cabin factor in the 75%-80% range and relatively stable passenger yield, we forecast annual revenue to be in the range of Bt195 billion to Bt200 billion in 2020-2021.

More debt to fund investment plan

We project THAI's leverage to gradually increase in the next three years. According to THAI's investment plan to acquire at least 25 new aircraft during 2020-2025 to be chiefly debt funded, we expect adjusted debt to increase to Bt255 billion by the end of 2021 from Bt238 billion in 2018. We project earnings before interest, taxes, depreciation, and amortization (EBITDA) to improve to approximately Bt35.5 billion in 2021, compared with Bt22.6 billion in 2019. As a result, the adjusted net debt to EBITDA ratio should gradually decline from 10.4 times in 2019 to around 7.1 times in 2021. On the other hand, the debt to capitalization ratio is projected to be over 90% and the EBITDA interest coverage ratio will stay at around 3 times during the next two years. THAI's high debt burden will need to be addressed to improve its financial risk profile. We hold the view that the government will provide necessary support if THAI is faced with a financial difficulty situation.

Adequate liquidity

TRIS Rating expects that the company will maintain a sufficient cushion to service maturity debts and deal with any unexpected events. Its sources of funds comprised cash on hand of Bt13.2 billion and undrawn credit facilities of Bt20.0 billion at the end of June 2019. Its funds from operations over the next 12 months are expected to be around Bt15 billion. The company plans to issue Bt10 billion in debentures to refinance maturing debts and for investments. These funding sources should adequately match the planned uses of funds. THAI has schedule debt repayment around Bt19 billion due during the next 12 months. As of June 2019, the company's outstanding short-term obligations were Bt5 billion. In addition, normal capital expenditures (excluding aircraft acquisitions) are budgeted at around Bt5.5 billion in 2020.

BASE-CASE ASSUMPTIONS

The following are our base-case assumptions and forecasts for 2019-2021:

- Annual revenue to drop 5% in 2019 then increase by around 3% in 2020 and 2021.
- Cabin factor to be in the range of 75%-80%.
- Passenger yield to range from Bt2.18 per RPK to Bt2.21 per RPK
- Operating profit margin to improve to 15%-17%.
- Jet fuel price assumption is to stay at approximately US\$85 per barrel.

RATING OUTLOOK

The "negative" outlook reflects THAI's operating performance deterioration due to the fierce competition in airline business and the impact from the economic slowdown. In addition, we expect the company's low operating efficiency to persist as the central issue hampering its operating performance.

RATING SENSITIVITIES

The ratings could be lowered if the operating profit margin further deteriorates without material reduction in leverage or if there are signs that negatively change TRIS Rating's view on the likelihood of government support. The outlook could be revised to "stable" if THAI's operating performance improves significantly or its capital structure becomes stronger which will result in its adjusted debt to EBITDA ratio improves to around 5-6 times on a sustained basis.

COMPANY OVERVIEW

THAI was founded in 1960 under a joint investment agreement between a Thai government agency operating the domestic airline, Thai Airways Co., Ltd. (TAC), and Scandinavian Airlines Systems (SAS) to engage in international air transportation. SAS provided the know-how to support THAI's efforts to operate and manage an airline efficiently. SAS sold its 30% stake in THAI to the Thai government in 1977. Before a public offering in November 2003, the government owned 93% of THAI via the MOF, The Vayupak Fund and the Government Savings Bank (GSB). Currently, the MOF directly owns 51.0% of THAI

while the Vayupak Fund holds 15.1% and the GSB holds 2.1%, respectively. A Cabinet resolution on 16 September 2003 ensured the government will maintain its ownership over 50%, continuing THAI's status as a state enterprise.

THAI is the national carrier of Thailand, operating domestic and international flights from its home base in Bangkok. In 2004, THAI and its partners set up Nok Air to compete in the domestic LCC market. Presently, the company holds a 21.8% stake in Nok Air. In mid-2012, THAI established a wholly-owned light premium airline, "THAISmile", to serve short-haul routes, supporting THAI's overall network. In October 2019, THAI's network, including destinations served by THAISmile, spanned 69 international destinations with 735 flights per week and 10 domestic destinations with 370 flights per week.

During the last five years, THAI's largest revenue stream has been passengers and passenger-related services, which accounted for over 80% of total revenue. Cargo and mail services contributed around 10% of total revenue. Other activities include catering and maintenance services.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown by Line of Business

Line of Business	2016		2017		2018		Jan-Jun 2019	
	Bt Million	%	Bt Million	%	Bt Million	%	Bt Million	%
Passengers	148,060	83	157,475	83	160,255	82	75,622	83
Cargo & mail	18,579	10	20,272	11	22,340	11	9,062	10
Other activities	11,674	7	12,111	6	13,370	7	6,830	7
Total	178,313	100	189,858	100	195,965	100	91,514	100

Source: THAI

Table 2: Operating Cost Breakdown of THAI

Operating Cost	2016		2017		2018		Jan-Jun 2019	
	Bt Million	%	Bt Million	%	Bt Million	%	Bt Million	%
Personnel	31,186	15	29,606	16	30,788	15	14,797	15
Fuel and oil	79,231	38	50,215	27	60,096	30	27,909	25
Cost inventories and supplies	8,257	4	9,009	5	9,111	4	4,591	5
Lease of aircraft and spare parts	6,067	3	11,282	6	15,017	7	9,074	9
Flight operations	42,139	21	45,754	25	47,882	24	23,680	24
Depreciation	20,534	10	17,021	9	19,045	9	8,427	9
Marketing	8,920	4	11,215	6	10,843	5	5,320	5
Insurance	493	0	512	0	59	0	311	0
Remuneration to BOD	88	0	96	0	87	0	47	0
Other operating expenses	9,124	5	9,381	5	9,817	5	4,862	5
Total operating expenses	206,564	100	184,091	100	203,276	100	99,018	100

Source: THAI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Bt million

	Jan-Jun 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	92,300	198,056	191,844	180,202	184,350
Operating income	9,952	27,884	34,653	34,125	24,541
Earnings before interest and taxes (EBIT)	(2,726)	296	12,331	11,117	4,482
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	10,280	28,366	35,099	34,593	28,994
Funds from operations (FFO)	4,807	17,605	25,796	26,111	19,681
Adjusted interest expense	5,214	10,798	10,126	9,947	10,382
Capital expenditures	1,064	3,870	3,618	5,698	3,915
Total assets	261,986	268,721	280,775	283,124	302,471
Adjusted debt	224,644	238,813	237,314	228,818	241,479
Adjusted equity	16,853	20,456	32,013	33,588	32,926
Adjusted Ratios					
Operating income as % of total operating revenues (%)	10.78	14.08	18.06	18.94	13.31
Pretax return on permanent capital (%)	(3.26)	0.11	4.40	3.89	1.50
EBITDA interest coverage (times)	1.97	2.63	3.47	3.48	2.79
Debt to EBITDA (times)	11.33	8.42	6.76	6.61	8.33
FFO to debt (%)	3.45	7.37	10.87	11.41	8.15
Debt to capitalization (%)	93.02	92.11	88.11	87.20	88.00

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Government-Related-Entity, 6 June 2017

Thai Airways International PLC (THAI)

Company Rating:	A
Issue Ratings:	
THAI19DA: Bt1,230 million senior unsecured debentures due 2019	A
THAI19DB: Bt500 million senior unsecured debentures due 2019	A
THAI204A: Bt1,500 million senior unsecured debentures due 2020	A
THAI205A: Bt1,000 million senior unsecured debentures due 2020	A
THAI206A: Bt1,000 million senior unsecured debentures due 2020	A
THAI208A: Bt1,250 million senior unsecured debentures due 2020	A
THAI208B: Bt800 million senior unsecured debentures due 2020	A
THAI209A: Bt1,500 million senior unsecured debentures due 2020	A
THAI212A: Bt1,000 million senior unsecured debentures due 2021	A
THAI215A: Bt833 million senior unsecured debentures due 2021	A
THAI215B: Bt2,167 million senior unsecured debentures due 2021	A
THAI215C: Bt1,000 million senior unsecured debentures due 2021	A

THAI218A: Bt500 million senior unsecured debentures due 2021	A
THAI21DA: Bt1,340 million senior unsecured debentures due 2021	A
THAI21DB: Bt500 million senior unsecured debentures due 2021	A
THAI222A: Bt2,000 million senior unsecured debentures due 2022	A
THAI224A: Bt2,000 million senior unsecured debentures due 2022	A
THAI225A: Bt1,970 million senior unsecured debentures due 2022	A
THAI226A: Bt1,000 million senior unsecured debentures due 2022	A
THAI229A: Bt2,500 million senior unsecured debentures due 2022	A
THAI220A: Bt1,500 million senior unsecured debentures due 2022	A
THAI232A: Bt1,200 million senior unsecured debentures due 2023	A
THAI238A: Bt1,500 million senior unsecured debentures due 2023	A
THAI238B: Bt500 million senior unsecured debentures due 2023	A
THAI23DA: Bt1,000 million senior unsecured debentures due 2023	A
THAI242A: Bt1,000 million senior unsecured debentures due 2024	A
THAI243A: Bt1,500 million senior unsecured debentures due 2024	A
THAI245A: Bt910 million senior unsecured debentures due 2024	A
THAI246A: Bt1,000 million senior unsecured debentures due 2024	A
THAI24DA: Bt1,430 million senior unsecured debentures due 2024	A
THAI252A: Bt1,000 million senior unsecured debentures due 2025	A
THAI254A: Bt2,300 million senior unsecured debentures due 2025	A
THAI259A: Bt3,000 million senior unsecured debentures due 2025	A
THAI265A: B610 million senior unsecured debentures due 2026	A
THAI26DA: Bt3,000 million senior unsecured debentures due 2026	A
THAI276A: Bt3,000 million senior unsecured debentures due 2027	A
THAI282A: Bt2,400 million senior unsecured debentures due 2028	A
THAI288A: Bt2,200 million senior unsecured debentures due 2028	A
THAI28DA: Bt2,000 million senior unsecured debentures due 2028	A
THAI295A: Bt2,320 million senior unsecured debentures due 2029	A
THAI308A: Bt1,200 million senior unsecured debentures due 2030	A
THAI326A: Bt2,000 million senior unsecured debentures due 2032	A
THAI332A: Bt1,400 million senior unsecured debentures due 2033	A
THAI338A: Bt1,300 million senior unsecured debentures due 2033	A
THAI345A: Bt2,190 million senior unsecured debentures due 2034	A
Up to Bt10,000 million senior unsecured debentures due within 15 years	A

Rating Outlook:

Negative

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