

THAI AIRWAYS INTERNATIONAL PLC

No. 10/2019
14 January 2019

CORPORATES

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

Last Review Date: 26/07/18

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-	-

Contacts:

Pramuansap Phonprasert
pramuansap@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Parat Mahuttano
parat@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com



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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". The company rating is enhanced from THAI's stand-alone credit profile based on our expectation of the high likelihood of government support due to its status as a state enterprise. 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 in line with its aircraft acquisition plan and persistently high operating cost. The ratings are also constrained by fuel price fluctuations and event risks that could adversely impact air travel demand.

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. 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 plan are subject to the approval of the Cabinet.

Expect profitability to improve

TRIS Rating expects THAI's financial performance to gradually improve over the next few years, mainly due to lower fuel cost. We assume jet fuel price of US\$85 per barrel, compared with US\$90 in 2018. Based on this assumption, we project THAI's operating profit margin will recover to a range of 18%-19% during 2019-2021.

In 2018, a rise in jet fuel cost and other non-fuel costs were the main factors that pressured profitability. The operating profit margin declined to 14.9% in the first nine months of 2018 (9M2018), from 18.4% in 9M2017. Jet fuel cost increased 18% year-on-year (y-o-y), from an average of US\$76 per barrel in 9M2017 to US\$90 per barrel in 9M2018. In addition, the company was unable to cut non-fuel costs as planned. In 9M2018, non-fuel costs per available seat kilometer (ASK) was Bt1.38, compared with Bt1.37 per ASK in 9M2017.

Intense competition limits passenger yield improvement

We expect the intense competition in the airline industry will persist, which is likely to hinder THAI's ability to improve passenger yield (passenger revenue per revenue passenger kilometer or RPK) from the current level. The competition among airlines, both legacy airlines and low-cost carriers (LCCs), is likely to continue to limit THAI's ability to increase ticket prices, despite its capacity to levy fuel surcharges on some routes when fuel prices rise. THAI's passenger yield was maintained at Bt2.20 per RPK in 2017 through 9M2018.

Growth in tourist arrivals to support cabin factor

We expect the cabin factor to be in a 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 and support THAI's cabin factor. In 9M2018, total foreign tourist arrivals to Thailand increased by 9.2% y-o-y to 28.54 million persons. With cabin factor in the 75%-80% range and relatively stable passenger yield, we expect revenue will be in the range of Bt204 billion to

210 billion in 2019-2021.

Debt to grow from investment plan

We project THAI's leverage will gradually increase in the next three years. According to THAI's investment plan to acquire at least 25 new aircrafts during 2019-2024, we expect adjusted debt to increase to Bt223 billion by the end of 2021 from Bt219 billion in 2019. Despite the rising debt level, we project earnings before interest, taxes, depreciation, and amortization (EBITDA) will increase more rapidly to approximately Bt40 billion in 2021, compared with Bt36.1 billion in 2017. As a result, the total debt to EBITDA ratio will gradually decline from 6.5 times in 2017 to around 5.6 times in 2021. On the other hand, debt to capitalization ratio will edge up from 88% in 2017 to about 90% in 2021 and the EBITDA interest coverage ratio will stay at around 3.5 times.

Sufficient liquidity

TRIS Rating expects that the company will maintain a sufficient cushion to service debt maturities and deal with any unexpected events. Its source of funds comprised cash on hand of Bt13,027 million and undrawn credit facilities of Bt23,580 million at the end of September 2018. Its funds from operations over the next 12 months is expected to be around Bt22,000 million. This level should be sufficient to match the planned uses of funds. During the next 12 months, THAI must make principal repayments of Bt20,775 million. In addition, capital expenditures are budgeted at around Bt7,825 million in 2019.

BASE-CASE ASSUMPTIONS

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

- Annual revenue growth of about 2%
- 75-80% cabin factor
- Passenger yield of about Bt2.20 per RPK
- Operating profit margin in a range of 18%-19%.
- Jet fuel price assumption of approximately US\$85 per barrel.

RATING OUTLOOK

The "stable" outlook reflects the expectation that THAI's operating performance will be in line with our expectation and its status as a state enterprise is maintained.

RATING SENSITIVITIES

The ratings could be lowered if the operating profit margin deteriorates significantly without material reduction in leverage or if TRIS Rating believes that the level of government support will be reduced. The ratings and/or outlook are unlikely to be upgraded in the near term. However, the ratings and/or outlook could be revised upward if THAI's operating performance improves significantly or its debt to EBITDA ratio stays below 5 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 and the Government Saving Bang (GSB). Currently, the MOF directly owns 51.0% of THAI while the GSB holds 2.1%. A Cabinet resolution on 16 September 2003 ensured the government will maintain its ownership over 50%, continuing THAI's status as a state enterprise. The Vayupak Fund investment, holding 15.1% of THAI's shares, is considered as a private equity investment.

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 December 2018, THAI's network, including destinations served by THAISmile, spanned 70 international destinations with 749 flights per week and 10 domestic destinations with 374 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	2015		2016		2017		Jan-Sep 2018	
	Bt Million	%	Bt Million	%	Bt Million	%	Bt Million	%
Passengers	152,488	84	148,060	83	157,475	83	119,454	82
Cargo & mail	18,652	10	18,579	10	20,272	11	16,472	11
Other activities	11,588	6	11,674	7	12,111	6	9,730	7
Total	182,728	100	178,313	100	189,858	100	145,656	100

Source: THAI

Table 2: Operating Cost Breakdown of THAI

Operating Cost	2015		2016		2017		Jan-Sep 2018	
	Bt Million	%	Bt Million	%	Bt Million	%	Bt Million	%
Personnel	33,005	16	31,186	15	29,606	16	22,487	15
Fuel and oil	80,525	39	79,231	38	50,215	27	43,577	29
Cost inventories and supplies	9,625	4	8,257	4	9,009	5	6,767	5
Lease of aircraft and spare parts	4,699	2	6,067	3	11,282	6	11,011	7
Flight operations	41,182	20	42,139	21	45,754	25	36,292	25
Depreciation	20,026	10	20,534	10	17,021	9	11,929	8
Marketing	9,496	5	8,920	4	11,215	6	8,038	5
Insurance	628	0	493	0	512	0	437	0
Remuneration to BOD	104	0	88	0	96	0	65	0
Other operating expenses	9,570	4	9,124	5	9,381	5	7,141	5
Total operating expenses	208,860	100	206,564	100	184,091	100	147,744	100

Source: THAI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Bt million

	Jan-Sep 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	147,320	191,844	180,202	184,350	190,068
Operating income	21,927	35,699	34,921	24,541	9,200
Earnings before interest and taxes (EBIT)	4,127	12,260	11,077	4,452	(14,215)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	22,367	36,145	35,388	28,994	9,768
Funds from operations (FFO)	15,515	26,913	26,946	19,710	1,211
Adjusted interest expense	8,371	10,055	9,906	10,352	9,722
Capital expenditures	2,591	3,618	5,698	3,915	8,565
Total assets	277,607	280,775	283,124	302,471	307,267
Adjusted debt	240,824	236,081	228,010	241,139	235,778
Adjusted equity	28,388	32,013	33,588	32,926	41,296
Adjusted Ratios					
Operating income as % of total operating revenues (%)	14.88	18.61	19.38	13.31	4.84
Pretax return on permanent capital (%)	2.39	4.39	3.89	1.50	(4.90)
EBITDA interest coverage (times)	2.67	3.59	3.57	2.80	1.00
Debt to EBITDA (times)	7.52	6.53	6.44	8.32	24.14
FFO to debt (%)	10.08	11.40	11.82	8.17	0.51
Debt to capitalization (%)	89.46	88.06	87.16	87.99	85.10

RELATED CRITERIA

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

Thai Airways International PLC (THAI)

Company Rating:	A
Issue Ratings:	
THAI192A: Bt1,000 million senior unsecured debentures due 2019	A
THAI192B: Bt1,200 million senior unsecured debentures due 2019	A
THAI198A: Bt500 million senior unsecured debentures due 2019	A
THAI19DA: Bt1,230 million senior unsecured debentures due 2019	A
THAI19DB: Bt500 million senior unsecured debentures due 2019	A
THAI19OA: Bt1,500 million senior unsecured debentures due 2019	A
THAI204A: Bt1,500 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
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
THAI226A: Bt1,000 million senior unsecured debentures due 2022	A
THAI229A: Bt2,500 million senior unsecured debentures due 2022	A
THAI22OA: 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
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
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
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
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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

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