

# THAI AIRASIA CO., LTD.

No. 40/2018

1 June 2018

## CORPORATES

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
Senior unsecured	A-
<b>Outlook:</b>	Stable

### Company Rating History:

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

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## RATIONALE

TRIS Rating affirms the company rating of Thai AirAsia Co., Ltd. (TAA) and the ratings of TAA's outstanding senior unsecured debentures at "A-". At the same time, TRIS Rating assigns the rating of "A-" to TAA's proposed issue of up to Bt5,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance its existing debts and reserve for investments.

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 ongoing growth of the Thai tourism industry. However, these strengths are partially offset by intense competition in the industry plus TAA's relatively high leverage, exposure to volatile fuel prices, currency risk, and event risks.

In the first quarter of 2018, TAA's revenue increased by 23% year-on-year (y-o-y) to Bt11,254 million due to the strong growth of passengers. TAA's operating margin (operating income before depreciation and amortization as a percentage of revenue) also improved to 29.6%, compared with 25.7% in the same period of the previous year.

TAA's leverage declined but remained at high level. The adjusted debt to capitalization ratio declined from 78% in 2017 to 75% in the first quarter of 2018, thanks to the retention of earnings which increased TAA's equity base. From 2018 to 2020, the company is scheduled to receive 17 new aircraft which will be financed by both financial lease and operating lease. Hence, the debt level will increase significantly. However, the capacity expansion will boost operating results and enhance TAA's equity base.

## RATING OUTLOOK

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

Under TRIS Rating's base case scenario, we assume that TAA's revenues will grow around 15% per annum. Its operating profit margins will be above 20%. Despite its aggressive expansion plan, its debt to capitalization ratio will gradually decline to 71% in 2020. Meanwhile, the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio should stay above 3.5 times.

## 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 total debt to EBITDA is below 3 times and total debt is sustained at 60%-65% of capitalization.

A downside risk scenario will materialize if TAA's financial performance deteriorates substantially or if its financial leverage rises significantly above the current level.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**

Unit: Bt million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Sales	11,254	35,932	32,401	29,507	25,356
Gross interest expense	171	653	521	457	313
Net income from operations	1,757	2,366	3,488	2,196	209
Funds from operations (FFO)	2,309	3,772	4,405	4,352	1,197
Capital expenditures	2,855	6,599	3,483	3,083	5,742
Total assets	39,632	38,902	32,739	29,008	25,689
Total debt	18,672	19,461	15,455	14,037	12,077
Total debt (operating lease adjusted)	37,425	37,611	37,988	35,765	32,825
Shareholders' equity	12,457	10,622	9,289	7,257	6,201
Operating income before depreciation and amortization as % of sales	29.6	22.7	27.9	24.0	16.9
Pretax return on permanent capital (%)	12.4 *	10.5	13.4	12.0	7.1
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.6	3.5	3.6	3.0	2.1
FFO/total debt (%)	20.0 *	17.1	17.5	17.4	8.1
Total debt/capitalization (%)	75.0	78.0	80.4	83.1	84.1

Note: All ratios have been adjusted by operating leases.

\* Annualized from the trailing 12 months

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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-
TAA225A: Bt600 million senior unsecured debentures due 2022	A-
Up to Bt5,000 million senior unsecured debentures due within 10 years	A-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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