

THAI AIRWAYS INTERNATIONAL PLC

No. 42/2017

13 June 2017

Company Rating: A

Issue Ratings:
Senior unsecured A

Outlook: Stable

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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Rating Rationale

TRIS Rating affirms the company rating of Thai Airways International PLC (THAI) and the ratings of THAI's outstanding senior unsecured debentures at "A". At the same time, TRIS Rating assigns the rating of "A" to THAI's proposed issue of up to Bt8,000 million in senior unsecured debentures. The proceeds from the new debenture issue will be used to refinance maturing debts and reserve for investments.

The ratings reflect THAI's standalone credit profile and credit enhancement based on its status as a state enterprise and the national carrier of Thailand. TRIS Rating believes that the government would provide extraordinary support to THAI in a distress scenario. The ratings, however, are constrained by THAI's high leverage, weakened competitive position, comparatively high operating costs, as well as vulnerability to event risks and fuel price fluctuations.

THAI is a state enterprise, 51% owned by the Ministry of Finance (MOF). THAI is one of the largest full-service airlines in Asia. The company also provides "light premium" airline services, under the "THAISmile" brand, through a wholly-owned subsidiary. THAISmile's business model is to cover short haul routes and thereby supplement THAI's network at competitive prices. In March 2017, THAI's network spanned 66 international destinations with 663 flights per week, and 11 domestic destinations with 443 flights per week. In addition, THAI holds a 21.6% stake in NOK Airlines PLC, the second-largest low-cost carrier (LCC) in Thailand.

THAI's competitiveness has been on a downward trend for many years judging from its market shares since the company has ceded to its competitors on both international and domestic routes. Although the number of tourists visiting Thailand has been growing every year, the company has not been able to capture the benefit from the rise of business opportunities as it is expected as a market leader. Its market shares on both domestic and international routes have declined continuously over the past five years. Its market share on international routes, as measured by numbers of passengers, has declined from 32.9% in 2011 to 25% in 2016, while its share on the domestic routes also declined from 35.9% to 19.4% during the same period.

For the first quarter of 2017, although the number of both passengers carried and the cabin factor rose, the company's revenue fell slightly from the same period last year. THAI's passenger count increased by 10.1% year-on-year (y-o-y) to 6.52 million passengers in the first quarter of 2017. As a result, the cabin factor improved to 82.8% compared with 77.5% in the same period last year. However, the revenue dropped by 1% y-o-y to Bt49,289 million, a result of a sharp decline in yields.

THAI's operating margin declined to 20.4% in the first quarter of 2017, compared with 27.7% in the same period of the previous year, reflecting the

increases in both fuel and non-fuel costs. In TRIS Rating's view, THAI's profitability remains vulnerable as the intense competition from both low-cost carriers and the legacy airlines based in the Middle East will constrain THAI's ability to adjust ticket prices. A rise in the price of fuel will definitely hurt the profit margins.

THAI's capital structure has improved but remains weak. The debt-to-capitalization ratio declined from 87.6% in 2015 to 85.2% as of March 2017. Based on THAI's plan to renew its fleets, the capital structure is expected to hold at this level.

THAI's liquidity profile is acceptable. Funds from operations (FFO) increased from Bt15,631 million in 2015 to Bt20,365 million in 2016 and Bt6,905 million in the first quarter of 2017. The adjusted FFO to total debt ratio revived from 8% in 2015 to 11.3% in 2016 and stood at 8.7% (annualized, from the trailing 12 months) in the first quarter of 2017. The adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio also rebounded from 2.2 times in 2015 to 3.2 times in the first quarter of 2017. At the end of March 2017, the company's sources of funds comprised Bt13,613 million in cash on hand and Bt27,300 million in credit facilities. FFO is expected to be around Bt21,000 million per annum. This level is expected to be sufficient to cover the uses of fund. During the next 12 months, THAI has scheduled principal repayments of Bt22,722 million and outstanding short-term obligations of Bt6,192 million, plus capital expenditures of around Bt16,000 million. TRIS Rating expects the company to maintain a liquidity cushion sufficient to service its debts and serve as protection against unexpected events.

Over 2017-2019, TRIS Rating estimates that THAI's total revenue will grow at a modest rate. The jet fuel price is forecast to average approximately US\$70 per barrel. The ongoing implementation of a transformation plan is expected to increase the operating margin to 20%. Cash flow protection is expected to improve slightly with the FFO to total debt ratio staying over 10% and the EBITDA interest coverage ratio staying above 2.5 times.

Rating Outlook

The "stable" outlook reflects the expectation that THAI's operating performance will improve in accordance with its operating plans. The ratings could be downgraded if THAI's financial performance deteriorates significantly or if TRIS Rating believes that the prospect of extraordinary support from the government in a distress scenario has changed. The ratings could be upgraded if THAI's operating performance improves substantially and the debt to EBITDA ratio stays below 5 times on a sustainable basis.

Thai Airways International PLC (THAI)

Company Rating:	A
Issue Ratings:	
THAI170A: Bt4,000 million senior unsecured debentures due 2017	A
THAI185A: Bt1,555 million senior unsecured debentures due 2018	A
THAI185B: Bt1,445 million senior unsecured debentures due 2018	A
THAI185C: Bt5,000 million senior unsecured debentures due 2018	A
THAI188A: Bt1,250 million senior unsecured debentures due 2018	A
THAI189A: Bt1,000 million senior unsecured debentures due 2018	A
THAI192A: Bt1,000 million senior unsecured debentures due 2019	A
THAI192B: Bt1,200 million senior unsecured debentures due 2019	A
THAI190A: Bt1,500 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
THAI204A: Bt1,500 million senior unsecured debentures due 2020	A
THAI208A: Bt1,250 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
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
THAI229A: Bt2,500 million senior unsecured debentures due 2022	A
THAI220A: Bt1,500 million senior unsecured debentures due 2022	A
THAI238A: Bt1,500 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
THAI24DA: Bt1,430 million senior unsecured debentures due 2024	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
THAI28DA: Bt2,000 million senior unsecured debentures due 2028	A
Up to Bt8,000 million senior unsecured debentures due within 15 years	A

Rating Outlook: Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Mar 2017	2016	2015	2014	2013	2012
Sales	49,289	178,312	182,727	188,368	206,336	209,123
Gross interest expense	1,259	5,339	5,898	6,073	6,057	5,836
Net income from operations	2,614	2,958	(4,499)	(21,919)	(3,835)	2,069
Funds from operations (FFO)	6,905	20,365	15,631	2,948	19,960	25,361
Capital expenditures	950	6,910	16,619	15,717	38,088	40,576
Total assets	282,995	283,124	302,471	307,267	307,085	304,096
Total debt	160,245	167,383	192,403	191,852	176,350	158,685
Total debt (operating lease adjusted)	212,980	210,283	232,029	228,207	197,692	167,190
Shareholders' equity	37,019	33,588	32,926	41,296	56,919	69,818
Operating income before depreciation and amortization as % of sales	20.4	18.0	11.7	3.3	9.6	13.5
Pretax return on permanent capital (%)	1.9**	4.9	2.1	(5.0)	1.4	4.5
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.2	2.8	2.2	0.7	2.9	4.3
FFO/total debt (%)	8.7**	11.3	8.0	2.1	10.7	15.5
Total debt/capitalization (%)	85.2	86.2	87.6	84.7	77.6	70.5

Note: All ratios are operating lease adjusted

* Consolidated financial statements

** Annualized from the trailing 12 months

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