

# THAI AIRASIA CO., LTD.

No. 58/2020  
13 August 2020

## CORPORATES

<b>Company Rating:</b>	BB
<b>Issue Ratings:</b>	
Senior unsecured	BB
<b>CREDIT ALERT:</b>	Negative

**Last Review Date:** 02/04/20

### Company Rating History:

Date	Rating	Outlook/Alert
02/04/20	BBB-	Alert Negative
20/02/20	BBB+	Negative
30/03/17	A-	Stable

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## RATIONALE

TRIS Rating downgrades the company rating on Thai AirAsia Co., Ltd. (TAA) and the ratings on TAA's senior unsecured debentures to "BB" from "BBB-". At the same time, TRIS Rating maintains CreditAlert with a "negative" implication on the ratings on TAA. The downgrade reflects the deepened deterioration in TAA's operating performance due to the prolonged impacts of the Coronavirus Disease 2019 (COVID-19) pandemic and the increasing uncertainty of its business recovery as the timing of resuming normal international flights keeps drifting with persistent fluidity of the global pandemic situation.

Thailand's aviation industry has been severely affected by the COVID-19 pandemic. All of the domestically registered carriers suspended domestic and international flights in April 2020. With the virus outbreak brought under control domestically, the government has eased lockdown measures and allowed the resumption of domestic flights in May 2020. However, the timing of resuming normal international flights to and from Thailand remains highly uncertain as the pandemic keeps evolving and is likely to drag on for an extended period of time until a vaccine is widely available.

TAA resumed some domestic flights in May 2020. The company plans to gradually increase the number of domestic flights to the 2019 level by the last quarter of 2020. We believe domestic air transport will pick up following the Thai government's launch of a number of stimulus packages to boost domestic tourism. However, the number of infections has continued to rise globally, dashing any hopes of cross-border travel restrictions being lifted soon. A broad resumption of international air travel seems unlikely until a vaccine becomes widely available. In addition, the on-going global recession and the eroded consumer confidence in air travel safety could hamper travel demand even after the lifting of cross-border travel restrictions. During the past few years, revenue from international flights has contributed around half of TAA's total revenue.

We expect a deep deterioration in TAA's operating performance in 2020, before a gradual recovery in 2021-2022. Under our base-case scenario, we project TAA's revenue in 2020 to drop by approximately 60% from the 2019 level, before improving in 2021 to around 35% below the 2019 level, and in 2022 to around 20% below the 2019 level. We project TAA's earnings before interest, tax, depreciation and amortization (EBITDA) margin to plunge to 5% in 2020, before gradually recovering to around 20% in 2021-2022. To alleviate the impacts of the pandemic, the company has been cutting operating expenses, negotiating with its suppliers to defer certain fixed-charge expenses, and postponing new aircraft acquisitions.

Our immediate concern is on the company's stretched liquidity over the next six months. TAA's sources of funds comprise cash and liquid assets worth THB3 billion. The company expects to receive net cash proceeds of THB1.5 billion from aircraft sale and lease-back transactions. These funding sources should adequately match the planned uses of funds over the next six months. However, in the absence of international flights, we estimate the company will be running a net cash outflow of around THB400 million per month during the period the company gradually resumes its domestic flights. TAA's scheduled repayment of outstanding debts over the next 12 months includes THB2.5

**CreditUpdate**, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

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billion in long-term obligations and THB1.3 billion in short-term obligations. The company expects to roll over all of its short-term obligations. In our view, the company will need significant cash infusion to support its operation until air travel broadly resumes to normal. The company and other airline operators have requested soft loans from the government. However, it is still unclear until now whether the government will provide such support.

We assess that TAA might not be able to comply with the financial covenants on some of its debt obligations in 2020.

#### CREDIT ALERT

The “negative” CreditAlert reflects our concerns over the company’s stretched liquidity in the near term, and the increasing uncertainty of its business recovery.

#### COMPANY OVERVIEW

TAA was founded in 2003 through a joint venture between AirAsia Berhad (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 after purchasing 3,555,600 newly-issued shares, resulting in AAB’s shareholding standing at 45%.

TAA is the leading low-cost carrier (LCC) in Thailand. The company is a member of the AirAsia Group which launched services under the “TAA” brand in 2004. 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 of Thailand.

#### RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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

<b>Company Rating:</b>	BB
<b>Issue Ratings:</b>	
TAA216A: THB1,500 million senior unsecured debentures due 2021	BB
TAA225A: THB600 million senior unsecured debentures due 2022	BB
TAA236A: THB1,000 million senior unsecured debentures due 2023	BB
<b>CREDIT ALERT:</b>	Negative

#### TRIS Rating Co., Ltd.

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