

# THAI AIRASIA CO., LTD.

No. 12/2020  
20 February 2020

## CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Negative

Last Review Date: 21/02/19

### Company Rating History:

Date	Rating	Outlook/Alert
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 "BBB+" from "A-", and also revises the rating outlook to "negative" from "stable". The downgrade reflects the company's deteriorating financial profile caused by the continuing fierce competition in the aviation industry and high financial leverage. In addition, the ratings are constrained by fuel price fluctuations, currency risk, and event risks as are exemplified by the impact of the outbreak of coronavirus (COVID-19). However, TAA's ratings continue to reflect its leading position in the low-cost carrier (LCC) airline segment in Thailand, its cost efficiency, and its synergy and support with AirAsia Group, AirAsia Berhad (AAB) and its affiliates.

## KEY RATING CONSIDERATIONS

### Profitability remains under pressure

TRIS Rating expects TAA's profitability to remain under pressure but to recover in 2021. During 2019 and 2020, TAA's financial performance is likely to be affected by fierce competition and weakening air travel demand resulting from the impact of the COVID-19 outbreak. We project the company's operating profit margin will drop to the 15%-17% range in 2019 and 2020, compared with 18.2% in 2018. However, the operating profit margin could rebound to around 20% in 2021 if disruption caused by the COVID-19 outbreak ends in six months and competition in the airline industry becomes more rationalized. During 2019-2021, we project the jet fuel price will stay in the range of US\$75-US\$80 per barrel. We also assume that the company will be able to manage its non-fuel costs at the low level of around Bt1 per available seat kilometer (ASK).

### Competition keeps ticket prices low

In 2019, TAA had to reduce its ticket prices due to the cut-throat competition. Going forward, we believe competition in the airline industry will continue to be tough but more rationalized since all airline operators in Thailand have recorded poor financial performance. We project TAA will be able to increase its ticket prices by around 2%-3% per annum in the next few years.

### Assessed short-term impact from COVID-19 outbreak

We assess the impact of the COVID-19 outbreak on TAA's cabin factor to be short-term. We assume that the epidemic of COVID-19 will be brought under control within three to six months. Nonetheless, the number of Chinese travelers is expected to drop drastically in 2020, especially in the group tour segment. In response to the drop in demand, the company has suspended or reduced the frequency of flights on some China routes. Since Chinese tourists normally account for 19% of TAA's passengers, TAA's cabin factor is likely to decline to around 83% in 2020 from 85% in 2019. However, we expect the demand from Chinese tourists will recover rapidly as soon as the virus outbreak is brought under control and international traveling resumes to normal. On that basis, we project that TAA's cabin factor to bounce back to 85% in 2021. Other foreign tourist arrivals should continue to grow at a moderate rate.

## Ongoing support and benefits from AirAsia Group

TAA benefits from its synergy with the AirAsia Group by pooling the procurement of aircraft and fuel hedging, increasing its negotiating power to achieve cost saving. TAA also benefits from the Group's operating and marketing network. The AirAsia Group has member airlines operating in six countries: Malaysia, Thailand, Indonesia, the Philippines, India, and Japan, covering over 130 destinations across Asia and the Asia-Pacific region. TAA uses the same reservation and ticketing platform as AirAsia Group, enabling the booking of connecting flights to all destinations served by AirAsia affiliates.

## Weakening performance to sustain high leverage

We expect TAA's leverage to remain high during 2019-2020 but to improve in 2021. The debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio is likely to stay over 5 times during 2019 to 2020, due to the weakening profitability. The ratio should improve to around 4.5 times in 2021 in tandem with the projected recovery of the airline's operating performance. Over the next few years, we expect the company to maintain its fleet at around 60 aircraft, and its debt to capitalization ratio to stay above 80%.

## Adequate liquidity

We assess TAA to have adequate liquidity over the next 12 months. Its sources of funds comprised cash and liquid assets of Bt2.5 billion and undrawn credit facilities of Bt1.4 billion at the end of September 2019. The company will receive net cash proceeds of Bt2.7 billion from the sales and lease back transactions of 10 aircraft. These funding sources should adequately match the planned uses of funds. Based on the debt repayment schedule over the next 12 months, outstanding debt includes Bt2.5 billion in long-term obligations and Bt1.8 billion in short-term obligations. Capital expenditures for 2020 are budgeted at around Bt1.3 billion.

The financial covenants on some of the company's credit facilities require its net liability to total equity ratio to remain below 4 times and the net interest bearing debt to total equity ratio to remain below 3 times. With the expected weak financial results, TAA could potentially breach its financial covenants in 2020. We, however, expect that the company would be able to obtain a waiver from the lender in the event of breaching the financial covenants.

## BASE-CASE ASSUMPTIONS

For the three-year period from 2019 to 2021, TRIS Rating's assumptions are as follows:

- Revenues to be in the Bt37-Bt41 billion range per annum.
- Operating profit margin to decline to 15%-17% in 2019-2020, and will improve to 20% in 2021.
- The average jet fuel price to be in the range of US\$75-US\$80 per barrel.
- Capital expenditures (excluding aircraft acquisition) to be Bt1.8 billion.
- Debt to EBITDA ratio to sustain over 5 times during 2019 to 2020, and will improve to 4.5 times in 2021.

## RATING OUTLOOK

The "negative" rating outlook reflects the fluid situation of the virus outbreak. In assessing the impact of the outbreak, we assume the base case of three to six months air travelling disruption. However, as we are still at the early stage of the epidemic, there is still a strong possibility that the magnitude and length of disruption will turn out to be significantly worse than our initial assessment, resulting in worse-than-expected deterioration in TAA's financial profile.

## RATING SENSITIVITIES

The rating outlook could be revised to "stable" if TAA can improve its operating performance in 2021 and maintain its dominant position in the LCC industry in Thailand. TAA's cost management efficiency and versatile operations are expected to help it withstand seasonal and external factors affecting the airline industry as a whole. A downside risk scenario would materialize if TAA's financial performance materially further deteriorates or if its leverage rises significantly above the current level.

## COMPANY OVERVIEW

TAA was founded in 2003 through a joint venture between 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 being to 45%.

TAA is the leading LCC in Thailand. The company is a member of the AirAsia Group which launched services under the "Thai AirAsia" brand in 2004. At the end of December 2019, TAA provided flight services on 58 international routes with

554 flights per week and 35 domestic routes with 773 flights per week. 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. Currently, the company operates from five hubs in Thailand: including Bangkok, Phuket, Chiang Mai, Krabi, and U-Tapao.

During the past three years, passenger fares accounted for the majority (80%) of the company's total revenue. The remaining 20% came from other passenger-related service fees.

**KEY OPERATING PERFORMANCE**

**Table 1: Total Passengers and Market Share of TAA**

Unit: Million passengers

		2012	2013	2014	2015	2016	2017	2018	9M2019
<b>International</b>	Industry	47.7	55.2	52.1	62.5	68.4	75.8	81.1	63.6
	TAA's passengers	3.3	4.1	4.8	5.6	6.5	7.3	8.2	6.9
	TAA's share (%)	6.9	7.5	9.2	8.9	9.4	9.7	10.1	10.8
<b>Domestic</b>	Industry	28.4	33.1	38.4	47.3	53.3	57.3	59.3	42.7
	TAA's passengers	5.0	6.4	7.4	9.3	10.8	12.5	13.4	9.8
	TAA's share (%)	17.6	19.2	19.3	19.6	20.2	21.7	22.6	23.0
<b>Total</b>	Industry	76.1	88.3	90.5	109.8	121.7	133.1	140.5	106.3
	TAA's passengers	8.3	10.5	12.2	14.8	17.2	19.8	21.6	16.7
	TAA's share (%)	10.9	11.9	13.5	13.5	14.2	14.9	15.4	15.7

Sources: 1) TAA  
2) Airports of Thailand PLC (AOT)

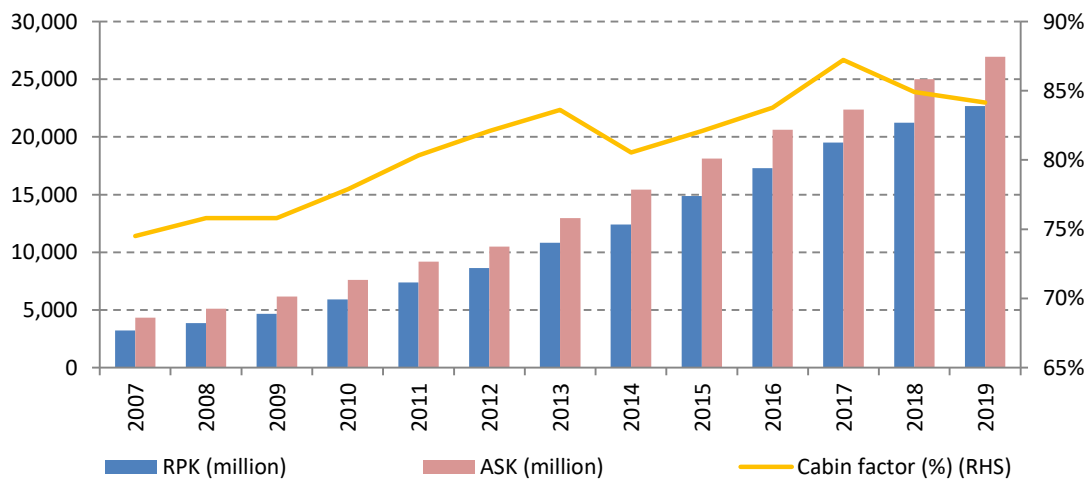
**Table 2: LCC Passengers and Market Share of TAA**

Unit: Million passengers

		2012	2013	2014	2015	2016	2017	2018	9M2019
<b>International</b>	Industry	7.5	10.3	11.3	15.0	19.2	22.9	27.1	23.7
	TAA's share (%)	43.8	40.4	42.6	37.2	33.7	32.1	30.1	29.1
<b>Domestic</b>	Industry	14.4	18.0	24.1	31.3	35.5	39.5	42.5	30.4
	TAA's share (%)	34.8	35.3	30.7	29.6	30.3	31.5	31.5	32.3
<b>Total</b>	Industry	21.9	28.3	35.4	46.3	54.7	62.4	69.6	54.2
	TAA's share (%)	37.9	37.2	34.5	32.1	31.5	31.7	31.0	30.9

Sources: 1) TAA  
2) AOT

**Chart 1: TAA's Cabin Factor**



Source: TAA  
ASK = Million Seat-Kilometers  
RPK = Million Passenger-Kilometers

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Sep 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	30,947	39,949	36,958	33,054	30,344
Earnings before interest and taxes (EBIT)	917	2,127	4,827	5,389	4,174
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,341	7,285	9,887	9,552	7,574
Funds from operations (FFO)	3,688	5,286	7,748	7,571	5,391
Adjusted interest expense	1,633	2,210	2,173	2,165	2,029
Capital expenditures	261	2,411	2,452	775	820
Total assets	37,234	37,918	38,902	32,739	29,008
Adjusted debt	37,784	39,131	33,156	33,123	30,260
Adjusted equity	6,908	7,778	10,622	9,289	7,257
<b>Adjusted Ratios</b>					
EBITDA margin (%)	17.26	18.23	26.75	28.90	24.96
Pretax return on permanent capital (%)	1.98	4.21	9.79	11.55	9.86
EBITDA interest coverage (times)	3.27	3.30	4.55	4.41	3.73
Debt to EBITDA (times)	5.68	5.37	3.35	3.47	4.00
FFO to debt (%)	11.82	13.51	23.37	22.86	17.81
Debt to capitalization (%)	84.54	83.42	75.74	78.10	80.66

## RELATED CRITERIA

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

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

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<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
TAA205A: Bt1,000 million senior unsecured debentures due 2020	BBB+
TAA216A: Bt1,500 million senior unsecured debentures due 2021	BBB+
TAA225A: Bt600 million senior unsecured debentures due 2022	BBB+
TAA236A: Bt1,000 million senior unsecured debentures due 2023	BBB+
<b>Rating Outlook:</b>	Negative

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**TRIS Rating Co., Ltd.**

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