

THAI AIRASIA CO., LTD.

No. 20/2022
8 March 2022

CORPORATES

Company Rating:	BB
Issue Ratings:	
Senior unsecured	BB-
Outlook:	Negative

Last Review Date: 16/08/21

Company Rating History:

Date	Rating	Outlook/Alert
16/08/21	B	Alert Negative
11/03/21	B+	Alert Negative
13/08/20	BB	Alert Negative
02/04/20	BBB-	Alert Negative
20/02/20	BBB+	Negative
30/03/17	A-	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Thai AirAsia Co., Ltd. (TAA) to “BB” from “B” and upgrades the ratings on TAA’s senior unsecured debentures to “BB-” from “B-”. At the same time, TRIS Rating removes the CreditAlert with “negative” implication on the ratings on TAA and assigns a “negative” outlook to the ratings.

The rating actions follow significant improvement in TAA’s credit metrics after Asia Aviation PLC (AAV) injected fresh capital of THB9.9 billion into TAA and completed shareholding restructuring. TAA is now 100% owned by AAV. The company rating on TAA incorporates its standalone credit profile of “bb” and its status as a “core” subsidiary of AAV as per our “Group Rating Methodology”. The company rating on TAA continues to reflect the strengths supporting its business risk profile, which are its leading position in the low-cost carrier (LCC) segment in Thailand and its cost efficiency. The company’s operation is set to recover from the prolonged Coronavirus Disease 2019 (COVID-19) pandemic. The ratings on TAA’s senior unsecured debentures are one notch below the company rating since its priority debt to total debt ratio stood at 63%, exceeding the threshold of 50% according to our “Issue Rating Criteria”.

The “negative” outlook reflects the persistent uncertainty of the pandemic and travel restrictions that are still in place in many countries, as well as fuel price fluctuations and heightening geopolitical risk, which continue to weigh on the prospect of TAA’s business and financial recovery.

KEY RATING CONSIDERATIONS

Fund raising improves liquidity and credit metrics

TAA’s liquidity and credit quality improved significantly, following the successful fund raising and shareholding restructuring at AAV and TAA. TAA is now 100% owned by AAV. AAV received net cash from the fund raising of THB6.2 billion, of which THB6 billion was injected to TAA. In addition, TAA received net cash proceeds of around THB1 billion from aircraft sale and lease-back (SLB) transactions, as completed in February 2022. We view that the cash received from the fund raising and SLB transactions have reduced short-term liquidity risk materially and provided cushioning against any adverse operating conditions during a period that is still filled with uncertainty for the recovery of the aviation industry.

The improved liquidity position and the shareholding restructuring of TAA alleviates its negative equity position and helps support financial flexibility despite our expectation that TAA’s equity will remain in negative territory over the next couple of years.

Operations poised to recover

We expect TAA’s operating performance to gradually improve and fully recover to pre-pandemic levels in 2024. We expect the rise in COVID-19 cases in Thailand and globally due to the Omicron variant to peak but remain under control in the first half of 2022. We expect air travel demand to start gaining momentum in the second half of 2022, led by domestic travel. We also expect many countries to ease travel constraints, including quarantine requirements or mandatory testing for COVID-19, allowing TAA to ramp up capacity and network routes. The company started to resume some of its international

flights in late 2021 and plans to gradually add more international capacities in the second half of 2022.

Our base-case scenario projects TAA's capacity to be 40%-45% lower than pre-pandemic levels in 2022 and around 10% lower in 2023, before returning to pre-pandemic levels in 2024. We project cabin factor to hit 78% in 2022 and improve to 82%-84% during 2023-2024 alongside recovery in air travel. Our base-case projection also forecasts the average ticket price to be around THB1,160 per ticket in 2022 as flights are predominantly domestic. The ticket price is projected to increase to THB1,400-THB1,450 per ticket in 2023-2024 after the volume of international flights adds up.

Improving financial metrics

Our base-line projection forecasts TAA's revenue to total around THB16-THB17 billion in 2022. This should improve to around THB34 billion in 2023 and THB41 billion in 2024. We are of the view that TAA will continue to adjust capacity and control operating expenses in response to any changing operating environment. Our base-case scenario projects TAA's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to be slightly negative in 2022, before improving to around 18%-21% in 2023-2024. The assumption factors in our forecast of jet fuel price at USD90-USD105 per barrel during 2022-2024. Given these assumptions, we project TAA will still post a substantial net loss in 2022, with operating results gradually improving in 2023 and 2024. Key downside risks to TAA's profitability and cash flow generation are the uncertainty surrounding COVID-19 developments which might prolong travel restrictions in many countries and suppress travel demand. Escalating geopolitical tensions and sharp rises in fuel prices, if protracted, will materially add pressure to TAA's operating results, delaying its financial strength restoration.

TAA's leverage, as measured by adjusted debt to EBITDA ratio, is expected to remain at a negative figure in 2022 per our projected negative EBITDA. However, we expect the leverage ratio to improve to 7-9 times during 2023-2024.

At the end of December 2021, TAA's priority debt to total debt ratio was 63%. Its priority debt included secured debt of THB3.7 billion and financial lease obligations of THB2.9 billion out of the total interest-bearing debt of THB10.6 billion. The priority debt ratio was above our trigger level of 50%. In our view, TAA's unsecured creditors could be at a significantly disadvantaged position to its priority debt holders with respect to claims against the company's assets. Thus, we rate TAA's senior unsecured debentures at "BB-", one notch below its company rating.

The main financial covenant on TAA's loan obligations require the company's net interest bearing debt to equity ratio to remain below 3 times. TAA was unable to comply with the covenant in 2021. However, TAA had already obtained waiver consent from the lender. We expect TAA to be unable to comply with the covenant and to request waivers from the lender at least in the next two years due to its negative equity. At the end of December 2021, TAA's equity was -THB11 billion. We expect the company's equity will continue to be in negative territory at least until 2024.

Liquidity remains tight but expected to be manageable

We view TAA's liquidity to remain tight but expect it to be manageable over the next 12 months. TAA's sources of funds comprise cash and cash equivalent on hand of THB0.7 billion at the end of 2021, cash received from the SLB transactions (5 out of 7 aircrafts) of THB3.6 billion, and cash from fund raising of THB6 billion.

Uses of funds are estimated as follows: a net cash outflow from operations of around THB2.1 billion in 2022, debt repayment (excluding lease obligations) including THB3.2 billion in short-term loans, THB0.9 billion in long-term debt, THB1.8 billion in debentures, and THB1.7 billion related to SLB transactions. In order to preserve its liquidity, the company plans to refinance and/or rollover parts of its maturing debts. We expect the company to continue its prudent liquidity management to preserve cash and maintain sufficient liquidity to weather operating headwinds until business recovery is on a firm sustainable path.

BASE-CASE ASSUMPTIONS

- Revenues to be THB16-THB17 billion in 2022, improving to around THB34 billion in 2023 and THB41 billion in 2024.
- EBITDA margin to be slightly negative in 2022, improving to around 18%-21% in 2023-2024.
- Average jet fuel price to be in the range of USD90-USD105 per barrel in 2022-2024.
- Capital expenditures (excluding aircraft acquisition) to total THB400 million per annum during 2022-2024.

RATING OUTLOOK

The "negative" outlook reflects the persistent uncertainty surrounding COVID-19 developments and travel restrictions that are still in place in many countries, fuel price fluctuations, and heightened geopolitical risk which continue to weigh on the prospect of TAA's business and financial recovery.

RATING SENSITIVITIES

A rating downgrade could occur if TAA's operating and financial results are weaker than projected and/or liquidity deteriorates deeper than expected. Conversely, the ratings and/or outlook could be revised upward if TAA's demonstrates clear signs of operating recovery and a sustainable path to restore its credit metrics.

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 AAV, a holding company established by TAA's management team at that time. In 2012, AAV acquired 3,555,600 newly issued shares, raising its shareholding to 55% while AAB was diluted to 45%. As of 31 January 2022, after the shareholding restructuring, TAA is currently 100% owned by AAV.

TAA is the leading 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.

KEY OPERATING PERFORMANCE

Table 1: Total Passengers and Market Share of TAA

Unit: Million passengers

		2014	2015	2016	2017	2018	2019	2020	2021
International	Industry	52.1	62.5	68.4	75.8	81.1	85.8	15.5	1.6
	TAA's passengers	4.8	5.6	6.5	7.3	8.2	9.1	1.4	0
	TAA's share (%)	9.2	8.9	9.4	9.7	10.1	10.6	9.3	0
Domestic	Industry	38.4	47.3	53.3	57.3	59.3	57.2	31.1	14.6
	TAA's passengers	7.4	9.3	10.8	12.5	13.4	13.0	8.1	2.9
	TAA's share (%)	19.3	19.6	20.2	21.7	22.6	22.8	25.8	20.1
Total	Industry	90.5	109.8	121.7	133.1	140.5	143.0	46.6	16.2
	TAA's passengers	12.2	14.8	17.2	19.8	21.6	22.1	9.5	2.9
	TAA's share (%)	13.5	13.5	14.2	14.9	15.4	15.5	20.3	18.1

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

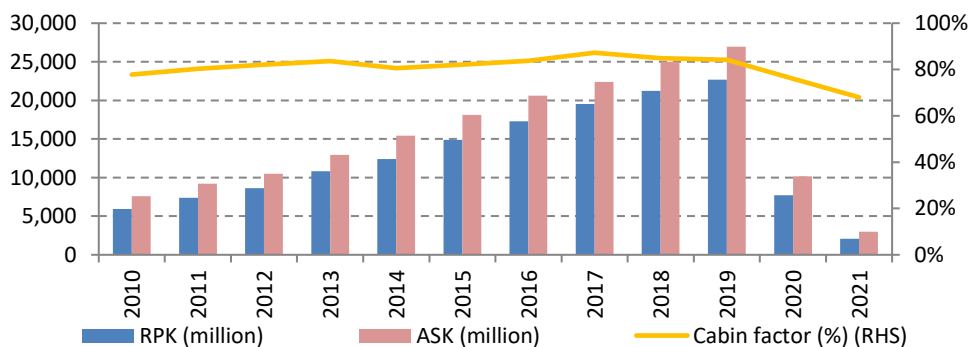
Table 2: LCC Passengers and Market Share of TAA

Unit: Million passengers

		2014	2015	2016	2017	2018	2019	2020	2021
International	Industry	11.3	15.0	19.2	22.9	27.1	32.0	4.9	0.1
	TAA's share (%)	42.6	37.2	33.7	32.1	30.1	28.6	29.4	0
Domestic	Industry	24.1	31.3	35.5	39.5	42.5	40.8	24.7	11.4
	TAA's share (%)	30.7	29.6	30.3	31.5	31.5	31.9	32.6	25.7
Total	Industry	35.4	46.3	54.7	62.4	69.6	72.7	29.6	11.5
	TAA's share (%)	34.5	32.1	31.5	31.7	31.0	30.5	32.0	25.6

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: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	4,116	14,359	41,178	39,949	36,958
Earnings before interest and taxes (EBIT)	(8,717)	(7,948)	1,014	1,876	4,505
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(3,339)	(2,209)	6,868	7,034	9,565
Funds from operations (FFO)	(5,175)	(4,027)	4,631	4,824	7,393
Adjusted interest expense	1,835	1,819	2,237	2,210	2,173
Capital expenditures	100	823	385	2,411	2,452
Total assets	45,509	45,130	39,067	37,918	38,902
Adjusted debt	47,661	38,496	38,384	39,131	33,156
Adjusted equity	(10,955)	(3,496)	6,838	7,778	10,622
Adjusted Ratios					
EBITDA margin (%)	(81.12)	(15.38)	16.68	17.61	25.88
Pretax return on permanent capital (%)	(23.74)	(18.67)	2.03	3.71	9.14
EBITDA interest coverage (times)	(1.82)	(1.21)	3.07	3.18	4.40
Debt to EBITDA (times)	(14.27)	(17.43)	5.59	5.56	3.47
FFO to debt (%)	(10.86)	(10.46)	12.06	12.33	22.30
Debt to capitalization (%)	129.85	109.99	84.88	83.42	75.74

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

Thai AirAsia Co., Ltd. (TAA)

Company Rating:	BB
Issue Ratings:	
TAA216ARs: THB1,200 million senior unsecured debentures due 2022	BB-
TAA225A: THB600 million senior unsecured debentures due 2022	BB-
TAA236A: THB1,000 million senior unsecured debentures due 2023	BB-
Rating Outlook:	Negative

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