

THAI AIRASIA CO., LTD.

No. 19/2018
23 February 2018

CORPORATES		RATIONALE
Company Rating:	A-	TRIS Rating affirms the company rating of Thai AirAsia Co., Ltd. (TAA) and the ratings of TAA's senior unsecured debentures at "A-". 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.
Issue Ratings:	A-	
Senior unsecured	A-	
Outlook:	Stable	
Company Rating History:		
Date	Rating	Outlook/Alert
30/03/17	A-	Stable
KEY RATING CONSIDERATIONS		
Maintaining a strong position in the low-cost market		
TAA is the largest LCC in Thailand. At the end of December 2017, TAA provided flight services on 43 international routes with 471 flights per week and 34 domestic routes with 789 flights per week. The company has a great advantage in terms of number of destinations and frequency of flights, which provide convenience to travelers. In addition, TAA is attempting to reduce its reliance on the China market by opening more routes to the CLMV countries (Cambodia, Lao PDR, Myanmar, and Vietnam) and India within the next three years.		
After continuing to add additional capacity and launching an aggressive promotional campaign, the number of passengers carried by TAA increased by 15% to 19.8 million passengers in 2017. Its market share in the LCC segment at Airports of Thailand PLC's (AOT) airports remained high at 31.5% during 2016 through the first nine months of 2017.		
Achieving cost advantages over rivals		
Cost leadership strategy is one key success factor for TAA. The company uses many tactics to eliminate unnecessary premium services and keep its operation lean. For example, the company uses a single aircraft type and sells tickets mainly through the Internet, the cheapest distribution channel for airlines. In addition, operating from Don Mueang airport increases efficiency as Don Mueang is less congested. In the first nine months of 2017, TAA's non-fuel costs per available seat kilometer (ASK) was only Bt1.05, far lower than the Bt1.37 of Thai Airways International PLC (THAI) and Bt1.92 of Nok Airlines PLC (NOK).		
Receiving ongoing support and benefits from AirAsia Group		
TAA benefits from the synergy with the AirAsia Group by pooling the procurement of aircraft and fuel hedging, increasing negotiating power to achieve cost saving. TAA also benefits from the AirAsia 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 108 destinations in 18 countries. TAA uses the same reservation and ticketing platform as the AirAsia Group. Customers can seamlessly book connecting flights to all destinations served by AirAsia affiliates.		
Continuing momentum growth of the Thai tourism industry		
In 2017, foreign tourist arrivals to Thailand continued to increase by 8.5% to 35.38 million persons. And, of course, the airline business is directly benefiting from the strong growth of foreign tourist arrivals. As Thailand is one of the world's top destinations for leisure, recreation, and holidays, TRIS Rating		
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expects prospects for the Thai tourism industry to remain good. Foreign tourist arrivals are expected to grow at a high single digit percentage.

More intense competition leads to the narrowing yield

TAA's passenger yield (passenger revenue per revenue passenger kilometer or RPK) fell in 2017 following intense competition among airlines. The yield declined to Bt1.84 per RPK in the first nine months of 2017, compared with Bt1.90 per RPK from the same period of the previous year. As jet fuel prices gradually increased in the last quarter of 2017, the company plans to raise its ticket price in 2018. However, TRIS Rating believes airline operators should raise ticket prices modestly as heightened competition remains.

Exposure to fuel price volatility

Fuel is the major operating cost for airlines. Therefore, the fluctuation of jet fuel prices directly impacts the profitability of airline operators. In 2017, TAA's average jet fuel price was US\$74 per barrel, increasing from US\$60 per barrel in 2016. As a result, TAA's fuel cost accounted for 31% of total operating expenses in 2017, compared with 28% in 2016. TRIS Rating expects the price of jet fuel will be around US\$80 per barrel during 2018-2020.

The company could mitigate fuel price risk by hedging and charging passengers a fuel surcharge. Currently, the company hedged approximately 13% of the fuel it expects to consume in the first half of 2018. The company also has an option to implement fuel surcharges for international routes if jet fuel prices increase significantly. However, at the current fuel price, the company will not impose a fuel surcharge, in order to keep ticket prices competitive.

Leverage is expected to rise

As of December 2017, the company had 56 aircraft, of which 36 were under operating leases, 15 were under financial leases, and five were the company's own aircraft. TRIS Rating considers the company's net present values of the operating leases as financial obligations. Total debt, including operating leases, was Bt37,611 million at the end of December 2017. The level of debt has increased significantly during the last five years as TAA acquired more aircraft. Despite the rise in debt, the adjusted debt to capitalization ratio declined from 84% in 2014 to 78% in 2017, 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.

Cash and liquid assets boost liquidity

TAA's liquidity is considered strong, supported by a sizable balance of cash on hand. At the end of December 2017, the company had Bt6,700 million in cash and liquid assets and undrawn uncommitted credit facilities of Bt4,430 million. Its funds from operations (FFO) over the next 12 months are expected to be around Bt3,500 million. During the next 12 months, TAA has debt repayment obligations of Bt2,647 million.

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.

COMPANY OVERVIEW

TAA was founded in 2003 through a joint venture (JV) between AAB and Shin Corporation PLC or SHIN (formally changed name to 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's shareholding has held at 55% since 2012 after it purchased 3,555,600 newly-issued shares. AAB's shareholding was diluted to 45%.

TAA is the leading LCC in Thailand. The company is a member of the AirAsia Group and launched its service under the Thai AirAsia brand in 2004. At the end of December 2017, TAA provided flight services on 43 international routes with 471 flights per week and 38 domestic routes with 789 flights per week. The company's route network covers 53 destinations across 12 countries in Asia. TAA's strategy is to provide the lowest fares, but 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 from Thailand. Currently, the company operates six hubs: Bangkok, Phuket, Chiang Mai, Krabi, U-Tapao, and Hat Yai.

In 2017, 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

		2011	2012	2013	2014	2015	2016	9M-17
International	Industry	41.6	47.7	55.2	52.2	62.5	68.4	56.0
	TAA's passengers	2.9	3.3	4.1	4.8	5.6	6.5	5.4
	TAA's share (%)	7.0	6.9	7.5	9.2	8.9	9.4	9.6
Domestic	Industry	24.8	28.4	33.1	38.4	47.3	53.3	42.5
	TAA's passengers	4.0	5.0	6.4	7.4	9.3	10.8	9.1
	TAA's share (%)	16.2	17.6	19.2	19.3	19.6	20.2	21.5
Total	Industry	66.4	76.1	88.3	90.5	109.8	121.7	98.5
	TAA's passengers	6.9	8.3	10.5	12.2	14.8	17.2	14.5
	TAA's share (%)	10.4	10.9	11.9	13.5	13.5	14.2	14.7

Sources: 1) TAA

2) Airports of Thailand PLC (AOT)

Table 2: LCC Passengers and Market Share of TAA

Unit: Million passengers

		2011	2012	2013	2014	2015	2016	9M-17
International	Industry	6.0	7.5	10.3	11.3	14.2	19.2	16.8
	TAA's share (%)	48.6	43.8	40.3	42.6	39.3	33.6	31.9
Domestic	Industry	12.1	14.4	18.0	24.2	29.9	35.5	29.1
	TAA's share (%)	32.9	34.8	35.3	30.7	31.0	30.3	31.3
Total	Industry	18.1	21.9	28.3	35.4	44.1	54.7	45.9
	TAA's share (%)	38.1	37.9	37.2	34.5	33.6	31.5	31.5

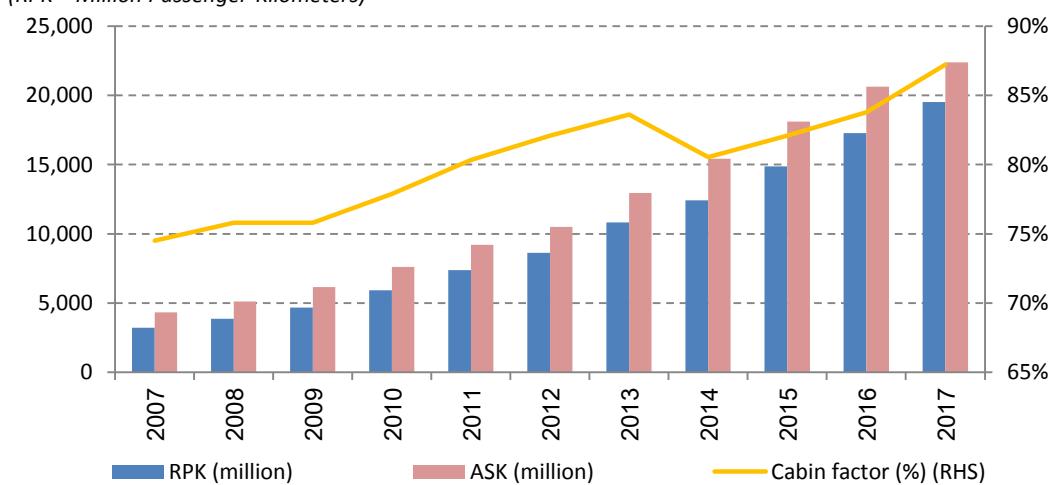
Sources: 1) TAA

2) AOT

Chart 1: TAA's Cabin Factor

(ASK = Million Seat-Kilometers)

(RPK = Million Passenger-Kilometers)



Source: TAA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Year Ended 31 December				
	2017	2016	2015	2014	2013
Sales	35,932	32,401	29,507	25,356	23,485
Gross interest expense	653	521	457	313	171
Net income from operations	2,366	3,488	2,196	209	1,690
Funds from operations (FFO)	3,772	4,405	4,352	1,197	2,761
Capital expenditures	6,599	3,483	3,083	5,742	8,039
Total assets	38,902	32,739	29,008	25,689	21,108
Total debt	19,461	15,455	14,037	12,077	8,161
Total debt (operating lease adjusted)	37,611	37,988	35,765	32,825	29,752
Shareholders' equity	10,622	9,289	7,257	6,201	5,856
Operating income before depreciation and amortization as % of sales	22.7	27.9	24.0	16.9	23.9
Pretax return on permanent capital (%)	10.5	13.4	12.0	7.1	14.8
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.5	3.6	3.0	2.1	2.7
FFO/total debt (%)	17.1	17.5	17.4	8.1	13.0
Total debt/capitalization (%)	78.0	80.4	83.1	84.1	83.6

Note: All ratios have been adjusted by operating leases.

Thai AirAsia Co., Ltd. (TAA)

Company Rating:	A-
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Issue Ratings:	
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TAA205A: Bt1,000 million senior unsecured debentures due 2020	A-
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TAA225A: Bt600 million senior unsecured debentures due 2022	A-
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Rating Outlook:	Stable
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