

AERONAUTICAL RADIO OF THAILAND LTD.

 No. 92/2018
 5 July 2018

CORPORATES

Company Rating: AAA
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
17/07/15	AAA	Stable
28/06/13	AA+	Stable
24/07/09	AA	Stable
23/05/08	AA	Positive
12/07/04	AA	Stable
25/07/00	AA	
26/02/98	A+	
18/09/97	AA-	
03/07/97	AA	Alert Negative
02/02/95	AA	

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RATIONALE

TRIS Rating affirms the company rating of Aeronautical Radio of Thailand Ltd. (AEROTHAI) at “AAA”. The rating reflects the monopolistic status of AEROTHAI as the sole air navigation service provider in the country, as well as its good safety record, strong financial standing, and experienced management team. TRIS Rating views that the company’s credit profile is enhanced by its unique and important role to the government and the potential to have extraordinary support from the government in a stress scenario.

KEY RATING CONSIDERATIONS

Strategic role in Thailand’s aviation industry

AEROTHAI has the critical role in the Thai aviation industry as the government designated the company to be the sole provider of air traffic control services in Thailand. The Thai government, as a contracting state of the International Civil Aviation Organization (ICAO), entrusted the company to ensure that its operations comply with the ICAO’s standards and practices to provide safe and efficient air transportation over the Bangkok Flight Information Region (BKK FIR).

AEROTHAI is a state enterprise with 91.0% of its equity stake held by the Thai government. The government supervises AEROTHAI’s operations via the Civil Aviation Authority of Thailand (CAAT), Ministry of Transport. The government designates nine of AEROTHAI’s 11 board members, while the other two members are appointed by the member airlines. AEROTHAI’s corporate plan and capital expenditure budget are subject to the approval of the Ministry of Transport and the Cabinet. TRIS Rating views that in a stress scenario, the government will likely to provide full support to the company on a timely basis.

Good safety performance

AEROTHAI has a good safety performance. The company’s rate of air traffic incident ranged from 2.2-3.7 per 100,000 instrumental flight rule (IFR) flight movements during the past five years. These figures are below the global average of 4.7 per 100,000 IFR flight movements. In order to improve its safety performance and enhance its capability to service the increasing air traffic volume, the company has invested in the new air traffic control system which is currently running in parallel with the existing system.

Improved financial performance

The growth in air traffic volume has led to improvement in AEROTHAI’s financial performance. AEROTHAI posted revenue growth of 4.7% during fiscal year 2017 (FY2017) and 6.7% in the first six months of FY2018. This growth was attributed to the increasing air traffic volume at the six airports operated by Airports of Thailand PLC (AOT), which grew by 6.0% in FY2017 and 5.0% year-on-year (y-o-y) in the first six months of FY2018. As a result, AEROTHAI reported an over collection of Bt2,000 million in FY2017 and Bt1,631 million for the first six months of FY2018.

Declining leverage

AEROTHAI’s total debt declined from Bt1,359 million in FY2017 to Bt634 million at the end of March 2018. The total debt to capitalization ratio improved to 39.1% in the first six months of FY2018, compared with 58.5% in FY2017. Over

the next three years, AEROTHAI plans to invest Bt4,750 million in capital expenditures. Based on its projected capital expenditures, TRIS Rating estimates that AEROTHAI's debt to capitalization ratio will gradually decline to 25.0% in FY2020.

Strong liquidity profile

AEROTHAI's financial liquidity is strong. At the end of March 2018, the company's source of funds comprised cash on hand and short-term investments of Bt4,681 million and short-term revolving credit facilities of Bt880 million from banks. TRIS Rating forecasts the company's funds from operations (FFO) in FY2018 to be around Bt2,500 million. These sources of funds are more than sufficient to cover the Bt127 million in long-term debt repayment obligations and Bt1,400 million in capital expenditures in FY2018.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation of AEROTHAI's continued monopolistic status as the sole air navigation service provider in the country in the foreseeable future and its ability to maintain good operating records. In addition, TRIS Rating expects the company to sustain a strong liquidity position.

TRIS Rating's base case scenario assumes that AEROTHAI's revenue will grow around 6.0% per annum during FY2018-FY2020. However, TRIS Rating expects the company's over collection will decline over the next three years as AEROTHAI plans to raise its operating expenses by around 12.0% per annum to support the growing air traffic volume. During the next three years, TRIS Rating estimates that AEROTHAI's FFO to total debt ratio will remain high at over 100.0% and the earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio will be above 25 times.

RATING SENSITIVITIES

A rating downgrade scenario may occur, although it is highly unlikely, if AEROTHAI's linkage with the government weakens to the degree that it changes TRIS Rating's view on the prospect of extraordinary support from the government to AEROTHAI.

COMPANY OVERVIEW

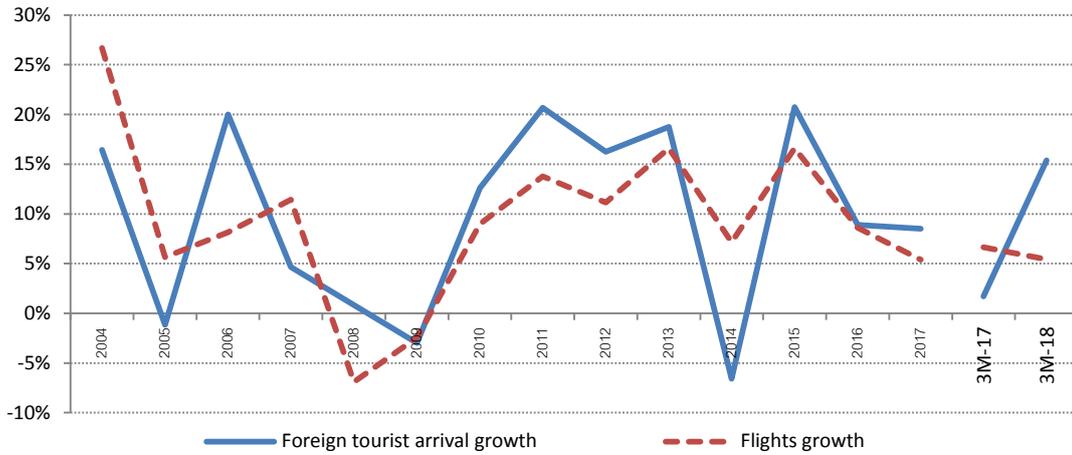
AEROTHAI was established in 1948 by a group of airline companies, with the consent of the Thai government, as Thailand's sole air navigation service provider. In 1963, the government acquired most of AEROTHAI's shares which made AEROTHAI a state enterprise under the supervision of the Ministry of Transport. As of March 2018, the Thai government held a 91.0% stake in the company, with the balance held by 106 member airlines. The ownership stakes of the individual airlines are reallocated annually based on the proportion of flights each airline is operating in Thailand. The company has been appointed by the Thai government to operate the country's air traffic control and aeronautical communication services, which are critical functions for air transportation safety and the security of the country.

Air traffic control services have three functions: aerodrome control, approach control, and area control. Aerodrome control refers to air traffic control services within five nautical miles from an airport. Approach control covers the area beyond five up to 50 nautical miles. Beyond that distance, the responsibility is under the area control services of the BKK FIR covering all the Thai airspace, the Gulf of Thailand, and some parts of the Andaman Sea.

At its inception in 1948, AEROTHAI was responsible only for area control services. In 1998, the government transferred aerodrome control and approach control services at all provincial airports to the company. This move gave AEROTHAI monopoly status in air traffic services. Currently, the company provides air traffic control services at 36 airports nationwide.

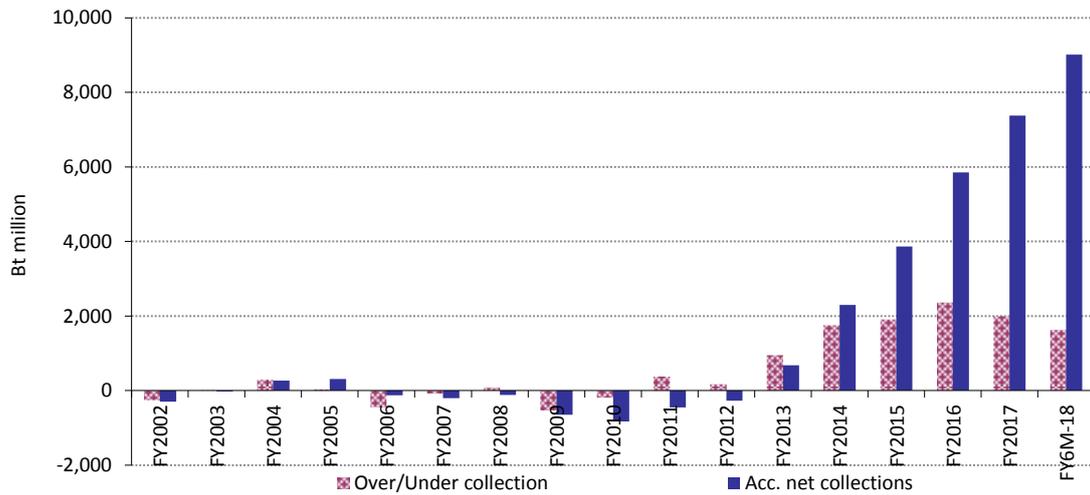
KEY OPERATING PERFORMANCE

Chart 1: Growth in Foreign Tourist Arrivals and the Number of Flights through AOT's Airports



Sources: 1) Tourism Authority of Thailand (TAT)
2) Airports of Thailand PLC (AOT)

Chart 2: AEROTHAI's Over-collection/Under-recovery and Accumulated Net Collections



Note: In FY2003, the Thai government waived a remittance of Bt269.91 million.
Source: AEROTHAI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Oct-Mar 2018	----- Year Ended 30 September -----			
		2017	2016	2015	2014
Revenues	6,503	12,122	11,580	10,540	9,478
Gross interest expense	8	38	66	88	127
Over (under) collections	1,631	2,000	2,363	1,909	1,756
Funds from operations (FFO)	2,184	3,478	3,703	3,267	2,815
Capital expenditures	319	1,529	1,781	2,054	1,259
Total assets	14,459	14,429	13,386	12,090	9,863
Total debt	634	1,359	2,901	3,395	4,040
Shareholders' equity	989	965	920	889	855
Depreciation	449	871	808	712	655
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	246.9	75.7	48.8	30.7	19.9
FFO/total debt (%)	578.1 *	255.9	127.6	96.2	69.7
Total debt/capitalization (%)	39.1	58.5	75.9	79.2	82.5

* Annualized from the trailing 12 months

Aeronautical Radio of Thailand Ltd. (AEROTHAI)

Company Rating:	AAA
Rating Outlook:	Stable

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