

AERONAUTICAL RADIO OF THAILAND LTD.

No. 113/2021
21 July 2021

CORPORATES

Company Rating: AAA
Outlook: Stable

Last Review Date: 31/07/20

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 | - |

Contacts:

Tulyawat Chatkam

tulyawatc@trisrating.com

Chanaporn Pinphithak

chanaporn@trisrating.com

Parat Mahuttano

parat@trisrating.com

Pramuansap Phonprasert

pramuansap@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Aeronautical Radio of Thailand Ltd. (AEROTHAI) at “AAA” with a “stable” rating outlook. The rating reflects our assessment of AEROTHAI’s status as a government-related entity (GRE), integrally linked to the government, and our view of the almost certain likelihood that AEROTHAI would receive timely and sufficient support from the Thai government in times of stress.

KEY RATING CONSIDERATIONS

Integrally linked to the government

AEROTHAI is a state enterprise with 91% of its shares held by the Thai government. The company essentially acts as an arm of the government in ensuring safety and security for Thai territorial airspace. The government supervises AEROTHAI’s operations via the Civil Aviation Authority of Thailand (CAAT), under the Ministry of Transport (MOT). The government designates nine out of 11 directors making up the board of directors, with other two members being appointed by member airlines. AEROTHAI’s corporate plan is subject to the approval of the MOT, while its capital expenditure budget is subject to the approval of the MOT, Office of the National Economic and Social Development Council (NESDC), and the Cabinet, respectively. The company is required to submit its debt service and borrowing plan to the Public Debt Management Office (PDMO) under the Ministry of Finance (MOF).

On 15 December 2020, the Cabinet approved the Civil Aviation Commission’s policy authorizing AEROTHAI to provide air traffic management and other related air navigation services for Thai civil aviation. Following the approval, the company is not required to renew its service agreement with the MOT. TRIS Rating believes that in a stress scenario, the government would provide full support to the company on a timely basis.

Critical role to the government

We view that AEROTHAI plays a critical role in the Thai aviation industry and to the government as the main air navigation service provider in Thailand. The Thai government, as a contracting state of the International Civil Aviation Organization (ICAO), has entrusted the company to provide air navigation services in conformance with the ICAO’s standards and practices for safe and efficient air transportation over the Bangkok Flight Information Region (BKK FIR). As air traffic control is a matter of the national safety and security, it is highly unlikely that the government would allow a private entity to fulfill the function. AEROTHAI is also an important part of the government’s plan to raise the competitiveness of Thailand as a major aviation hub in Asia.

Good safety performance

AEROTHAI has a good track record of safety. The company’s rate of air traffic incidents has been below the Civil Air Navigation Services Organization (CANSO) average for the past five years. In view of the substantial increase in air traffic volume in the past decade, the company has invested in a new air traffic management system to improve its safety performance and enhance its service capability. The new air traffic management system became fully operational in February 2020.

Lingering impacts of COVID-19

AEROTHAI's performance has been affected by successive waves of the Coronavirus Disease 2019 (COVID-19). Although air traffic volume had gradually recovered to around 45% of the pre-pandemic level in December 2020, it fell sharply once again to around 28% of the pre-pandemic level in January-May 2021 when the second and third waves of infections prompted the government to tighten travel restrictions and people became increasingly cautious about travelling. As a result, AEROTHAI's revenue dropped by 45% in fiscal year (FY) 2020 (October 2019 - September 2020) and 72% in the first six months of FY2021 (October 2020 - March 2021), in line with 41% and 65% drops in air traffic volume in FY2020 and in the first six months of FY2021, respectively. AEROTHAI has attempted to reduce its costs in response to the sharp decline in revenue. However, the company was able to reduce costs by only 15% as its cost structure is largely fixed. The company consequently posted an under-collection of THB3.4 billion in FY2020 and THB3.3 billion in the first six months of FY2021.

In our base-case forecast, we expect AEROTHAI's financial performance to deteriorate further in FY2021, before gradually recover during FY2022-FY2023, and fully recover to the pre-COVID-19 level in FY2024. The recovery path is expected to take longer than we previously forecast due to the protracted pandemic situation. In addition, around two thirds of air traffic volume that AEROTHAI handled during the pre-COVID-19 period was made up of international flights, which are unlikely to recover meaningfully unless mass vaccination is achieved and proven effective in most parts of the world. We forecast AEROTHAI's revenue to drop further, to THB3.4 billion in FY2021, before recovering to around THB6.2 billion in FY2022 and THB10.1 billion in FY2023. Since the company's cost structure is largely fixed, we project AEROTHAI to post an under-collection of around THB6.4 billion in FY2021, THB4.4 billion in FY2022, and THB1.2 billion in FY2023. As AEROTHAI operates on a cost-recovery basis, with service fees estimated and set to cover all costs, we expect the company will adjust its service fees to cover the accumulated under-collection once the aviation industry returns to normal.

Rising leverage

AEROTHAI's adjusted debt is expected to increase to the range of THB4.1-THB6.8 billion during FY2021-FY2023, from THB2.9 billion as of March 2021. We expect the company to borrow new loans to cover its huge revenue shortfalls and to fund its planned capital expenditures of around THB2.4 billion during FY2021-FY2023. Hence, we project AEROTHAI's adjusted debt to capitalization ratio to rise to 87% in FY2023, from 75% as of March 2021.

Sufficient liquidity

We expect AEROTHAI to have sufficient liquidity for the next 12 months. At the end of March 2021, the company's sources of funds included cash-on-hand and short-term investments of THB2.2 billion, short-term revolving credit facilities from banks of THB1.8 billion, and undrawn long-term loans of THB2.7 billion expected to be drawn down during FY2021-FY2023. The company is in the process of securing THB1.8 billion additional short-term loans to reserve for working capital in FY2022. These sources of cash are sufficient for its planned uses of funds over the next 12 months, which include long-term loan repayments of THB127 million and planned capital expenditure of THB400 million for FY2021. In FY2021, we expect that the company will record a net cash outflow from operations of around THB4 billion.

BASE-CASE ASSUMPTIONS

During FY2021 to FY2023, TRIS Rating's assumptions for AEROTHAI's operations are as follows:

- Revenue to drop by approximately 74% in FY2021 compared with the FY2019 level, then improve to around 52% and 23% below the 2019 level in FY2022 and FY2023, respectively.
- The company to post under-collection of THB6.4 billion in FY2021, THB4.4 billion in FY2022, and THB1.2 billion in FY2023.
- Total investment of THB2.4 billion over the forecast period.
- Adjusted debt to capitalization ratio to increase to 87% in FY2023.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that AEROTHAI will maintain its status as a GRE, integrally linked to the government, and continue its important role to the government as the main provider of air navigation services in the country.

RATING SENSITIVITIES

A rating downgrade could occur if AEROTHAI's linkage to the government or its importance to the government changes, to the degree that it alters our view concerning the likelihood of the government providing timely and sufficient support to the company in times of stress.

COMPANY OVERVIEW

AEROTHAI was established in 1948 by a group of airline companies, with the consent of the Thai government, as Thailand’s main air navigation service provider. In 1963, the government acquired most of AEROTHAI’s shares, making AEROTHAI a state enterprise under the supervision of the MOT. As of March 2021, the Thai government held a 91% stake in the company, with the balance held by 113 member airlines. The ownership stakes of the individual airlines are reallocated annually based on the proportion of flights each airline operates in Thailand. The company has been appointed by the Thai government to operate the country’s air navigation services, which are critical functions for air transportation safety and the security of the country.

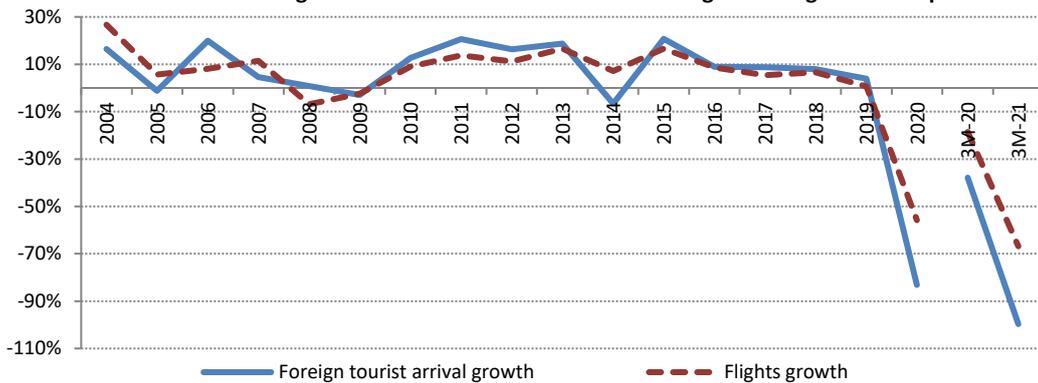
Air traffic control services can be divided into three functions: aerodrome control, approach control, and area control. Aerodrome control refers to air traffic control services within five nautical miles of an airport. Approach control covers the area between five and 50 nautical miles of an airport. Beyond that distance, responsibility comes 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 34 airports nationwide.

AEROTHAI operates on a cost-recovery basis, with service fees estimated and set to cover all costs. When revenues do not cover costs, if for example traffic volume is lower than projected, member airlines are required to fund the amount of the under-recovery. Conversely, if there is a surplus, AEROTHAI will refund the amount of overcollection to the member airlines. However, in the past, the member airlines allowed AEROTHAI to retain any overcollection as a reserve to offset future under-recovery. AEROTHAI has never experienced significant difficulties in collecting flight charges from its clients.

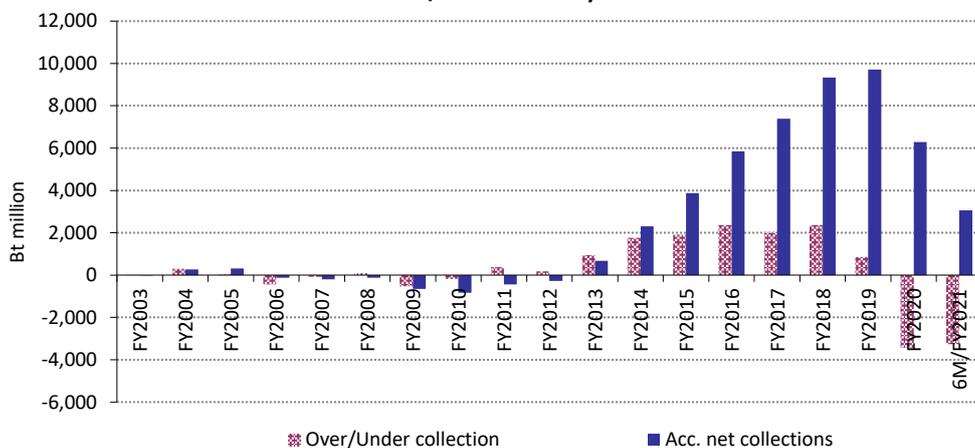
KEY OPERATING PERFORMANCE

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 Overcollection/Under-recovery and Accumulated Net Collections



Source: AEROTHAI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

| | Oct-Mar 2021 | ** | -----Year Ended 30 September ----- | | | |
|---|-----------------|----------|------------------------------------|--------|--------|--|
| | 2021 | 2020 | 2019 | 2018 | 2017 | |
| Total operating revenues | 1,674 | 7,214 | 13,042 | 12,975 | 12,122 | |
| Earnings before interest and taxes (EBIT) | (3,257) | (3,421) | 857 | 2,372 | 2,039 | |
| Overcollection (Under-recovery) | (3,262) | (3,427) | 848 | 2,358 | 2,000 | |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | (2,620) | (2,199) | 2,054 | 3,485 | 2,910 | |
| Funds from operations (FFO) | (2,625) | (2,205) | 2,045 | 3,472 | 2,871 | |
| Adjusted interest expense | 5 | 6 | 9 | 14 | 38 | |
| Capital expenditures | 253 | 895 | 1,187 | 1,061 | 1,529 | |
| Total assets | 11,426 | 13,603 | 17,344 | 15,878 | 14,429 | |
| Adjusted debt | 2,864 | 289 | 0 | 0 | 0 | |
| Adjusted equity | 962 | 998 | 1,043 | 1,000 | 965 | |
| Adjusted Ratios | | | | | | |
| EBITDA interest coverage (times) | (488.09) | (374.19) | 229.57 | 254.19 | 75.72 | |
| Debt to EBITDA (times) | (0.50) | (0.13) | 0.00 | 0.00 | 0.00 | |
| FFO to debt (%) | (201.10) | (763.79) | n.m. | n.m. | n.m. | |
| Debt to capitalization (%) | 74.86 | 22.44 | 0.00 | 0.00 | 0.00 | |

* Consolidated financial statements

** Annualized from the trailing 12 months

n.m. = Not meaningful

RELATED CRITERIA

- Government-Related Entities Rating Methodology, 30 July 2020
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Aeronautical Radio of Thailand Ltd. (AEROTHAI)

| | |
|------------------------|--------|
| Company Rating: | AAA |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

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