

AERONAUTICAL RADIO OF THAILAND LTD.

No. 108/2022
7 July 2022

CORPORATES

Company Rating: AAA
Outlook: Stable

Last Review Date: 21/07/21

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 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) with integral linkage and critical importance 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

Integral linkage to the government

AEROTHAI is a state enterprise with 91% of its shares owned by the Thai government, while the balance is held by member airlines. The company essentially acts as an arm of the government in ensuring safety and security in Thai territorial airspace. The government supervises AEROTHAI’s operations via the Civil Aviation Authority of Thailand (CAAT), under the Ministry of Transport (MOT). The Cabinet, on 15 December 2020, 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 MOT. The government designates nine out of 11 directors making up the board of directors, with the other two members being appointed by member airlines. AEROTHAI’s corporate plan is subject to the approval of MOT, while its capital expenditure is subject to the approval of MOT, Office of the National Economic and Social Development Council (NESDC), and the Cabinet. 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). TRIS Rating believes that in a stress scenario, the government would provide sufficient support to the company in a timely manner.

Critical role to the government

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

Gradual recovery expected

AEROTHAI’s operating performance has been strained over the last two years as air traffic has plummeted since early 2020 due to the impacts of the Coronavirus Disease 2019 (COVID-19) pandemic. Traffic volume dropped to around 57% of the fiscal year (FY) 2019 level in FY2020 and to around 26% of the FY2019 level in FY2021. Air traffic started to pick up in the first six months of FY2022, reaching around 33% of the FY2019 level. As AEROTHAI’s cost structure is largely fixed, the company has only been able to reduce some costs, leading to an income under expenses in FY2020, FY2021, and in the first six months of FY2022.

We expect a gradual recovery of air traffic volume and AEROTHAI's operating performance during FY2022-FY2024 in tandem with the relaxation of travel restrictions in the second half of 2022. We project air traffic volume to revive to around 38%, 58%, and 85% of the FY2019 level in FY2022, FY2023, and FY2024, respectively. The gradual recovery takes into account the continuing resumption of international flights, which contributed around two thirds of pre-COVID-19 air traffic in Thailand. We forecast AEROTHAI's revenue to be THB5.2 billion in FY2022, before rising to THB7.5 billion in FY2023 and THB11.5 billion in FY2024. We project AEROTHAI to post an income under expenses of around THB4.1 billion in FY2022 and THB2.4 billion in FY2023, before turning to an income over expenses of THB159 million in FY2024. 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 income under expenses starting in FY2024.

Rising financial leverage due to shortfalls from operations and investments

We expect AEROTHAI's financial metrics to remain under pressure in the next 2 years. We estimate that AEROTHAI will incur cash shortfalls from its operations in FY2022 and FY2023, before turning to a positive operating cash flow in FY2024. We also project capital expenditure totaling around THB2.4 billion in FY2022-FY2024. The company needs to borrow new loans to cover the operating cash shortfalls and to fund its planned capital expenditure. As a result, we expect AEROTHAI's adjusted debt to increase to the range of THB7.6-THB8.3 billion during FY2022-FY2024, from THB5.9 billion as of March 2022. AEROTHAI's adjusted debt to capitalization ratio is forecast to rise to around 89% in FY2022-FY2024, from 85% as of March 2022.

Adequate liquidity

We assess AEROTHAI to have sufficient liquidity for the next 12 months. As of March 2022, the company had cash on hand of THB1.3 billion and undrawn credit facilities of THB3.4 billion, including short-term revolving credit facilities of THB1.7 billion and long-term loans of THB1.7 billion. The company is in the process of securing an additional THB1.0 billion in short-term bank loans to further support its operating requirements. These sources of cash are sufficient to cover its expected uses of funds over the next 12 months, which include long-term loan repayments of THB127 million, and planned capital expenditure of THB650 million for FY2022. The company also has THB2.0 billion in short-term loans, which we expect the company to be able to roll over. In FY2022, we estimate the company to record a net cash outflow from operations of around THB2.4 billion.

BASE-CASE ASSUMPTIONS

- Revenue to increase to THB5.2 billion in FY2022, THB7.5 billion in FY2023, and THB11.5 billion in FY2024.
- The company to post an income under expenses of THB4.1 billion in FY2022 and THB2.4 billion in FY2023, before turning to an income over expenses of THB159 million in FY2024.
- Total investment of THB2.4 billion during FY2022-FY2024.
- Adjusted debt to capitalization ratio to remain high at around 89% in FY2022-FY2024.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that AEROTHAI will maintain its status as a GRE with an integral linkage and critical importance to the government, for its role as the main provider of air navigation services in the country.

RATING SENSITIVITIES

A rating downgrade could occur if AEROTHAI's linkage or importance to the government changes, to the degree that it impairs 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 2022, the Thai government held a 91% stake in the company, with the balance held by 92 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, as part of air traffic 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 income under expenses. Conversely, if there is a surplus, AEROTHAI will refund the amount of income over expenses to the member airlines. However, in the past, the member airlines allowed AEROTHAI to retain any income over expenses as a reserve to offset future income under expenses. AEROTHAI has never experienced significant difficulties in collecting flight charges from its clients.

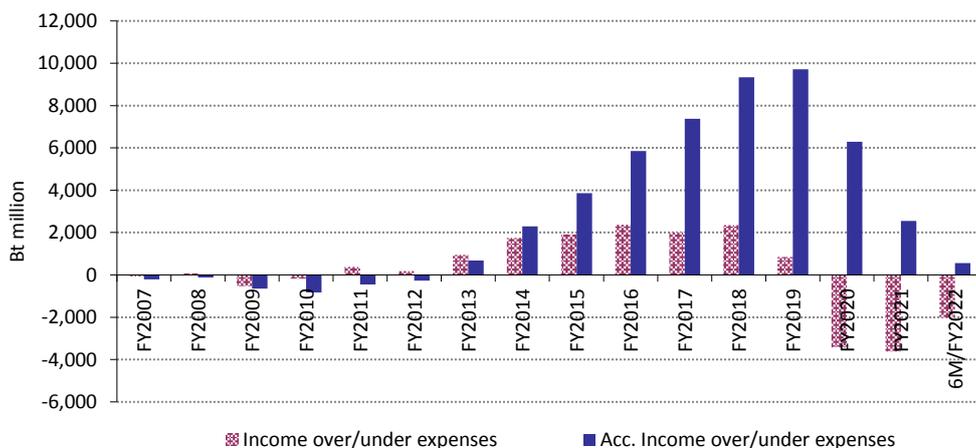
KEY OPERATING PERFORMANCE

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 Income Over/Under Expenses and Accumulated Income Over/Under Expenses



Source: AEROTHAI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Oct-Mar 2022	-----Year Ended 30 September -----			
		2021	2020	2019	2018
Total operating revenues	2,270	3,076	7,229	13,042	12,975
Earnings before interest and taxes (EBIT)	(2,000)	(4,823)	(2,164)	857	2,372
Income over (under) expenses	(2,023)	(4,910)	(2,186)	848	2,358
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(1,389)	(3,552)	(943)	2,054	3,485
Funds from operations (FFO)	(1,411)	(3,639)	(965)	2,045	3,472
Adjusted interest expense	22	87	22	9	14
Capital expenditures	185	764	895	1,187	1,061
Total assets	10,257	10,441	13,674	17,344	15,878
Adjusted debt	5,873	4,532	287	0	0
Adjusted equity	1,016	995	998	1,043	1,000
Adjusted Ratios					
EBITDA interest coverage (times)	(62.46)	(40.89)	(43.09)	229.57	254.19
Debt to EBITDA (times)	(2.19)	(1.28)	(0.30)	0.00	0.00
FFO to debt (%)	(47.42)	(80.30)	(336.46)	n.m.	n.m.
Debt to capitalization (%)	85.26	81.99	22.32	0.00	0.00

* Consolidated financial statements

** Annualized from the trailing 12 months

n.m. = Not meaningful

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Government-Related Entities Rating Methodology, 30 July 2020
- Rating Methodology – Corporate, 26 July 2019

Aeronautical Radio of Thailand Ltd. (AEROTHAI)

Company Rating:	AAA
Rating Outlook:	Stable

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