

AERONAUTICAL RADIO OF THAILAND LTD.

No. 145/2023
7 August 2023

CORPORATES

Company Rating: AAA
Outlook: Stable

Last Review Date: 07/07/22

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 Thai government and our view of the almost certain likelihood that AEROTHAI would receive timely and sufficient support from the government in times of stress.

KEY RATING CONSIDERATIONS

Integral linkage with government

AEROTHAI is a state enterprise with 91% of its shares held by the Thai government, with the remaining held by member airlines. The company essentially serves as an arm of the government, ensuring safety and efficiency in Thai territorial airspace. The company was authorized by the Cabinet to provide air traffic management and related air navigation services for Thai civil aviation upon approval of the Civil Aviation Commission’s policy. The government supervises AEROTHAI’s operations via the Civil Aviation Authority of Thailand (CAAT), under the Ministry of Transport (MOT). The government designates seven of the nine directors making up AEROTHAI’s 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, the 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 for 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 conforming to national regulations and ICAO’s 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 plan to raise Thailand’s competitiveness as a major aviation hub in Asia.

Full recovery of air traffic expected in fiscal year (FY) 2025

AEROTHAI’s operating performance started to improve meaningfully in the latter half of FY2022 through the first half of FY2023 thanks to the end of the Coronavirus Disease 2019 (COVID-19) pandemic and gradual recovery in air traffic volume. Air traffic volume recovered to around 43% of its pre-pandemic level in FY2022 and to around 64% in the first half of FY2023, from 29% in FY2021.

We expect air traffic volume and AEROTHAI’s operating performance to continue improving in FY2023 until fully recovering in FY2025. We project air traffic volume to recover to 69%, 90%, and 101% of the pre-pandemic level in FY2023, FY2024, and FY2025, respectively. Against that backdrop, AEROTHAI

should be able to generate revenue of THB8.8 billion in FY2023, before rising to THB12.1 billion in FY2024 and THB14.2 billion in FY2025. We also project AEROTHAI to post an income under expenses of around THB820 million in FY2023, before turning to an income over expenses of THB570 million in FY2024 and THB1.9 billion in FY2025. As AEROTHAI operates on a cost-recovery basis, with service fees set to cover all estimated costs, we expect the company will adjust its service fees to cover the accumulated income under expenses starting in mid FY2024.

Financial leverage to gradually improve

We expect AEROTHAI's financial leverage to gradually improve thanks to the expected recovery of cash generation over the next few years. We forecast the company's operating cash flow to turn positive from FY2023 onwards, after experiencing negative cash flows for the past three years. The company's capital expenditure is projected to total around THB2.1 billion during FY2023-FY2025. As a result, we expect AEROTHAI's adjusted debt to trend downward to THB2.1 billion in FY2025 from THB5.4 billion in FY2023 and its adjusted debt to capitalization ratio to decrease to 67% in FY2025 from 84% in FY2023.

Adequate liquidity

We assess AEROTHAI to have sufficient liquidity for the next 12 months. As of March 2023, the company had cash on hand of THB1.4 billion and undrawn credit facilities of THB2.6 billion. We also expect the company to record a net cash inflow from operations of around THB1.5 billion over the next 12 months. These sources of cash are sufficient to cover its expected uses of funds over the next 12 months, which include short-term loan repayments of THB2 billion and planned capital expenditures of THB450 million for FY2023.

BASE-CASE ASSUMPTIONS

- Revenue to increase to THB8.8 billion in FY2023, THB12.1 billion in FY2024, and THB14.2 billion in FY2025.
- The company to post an income under expenses of THB820 million in FY2023, before turning to an income over expenses of THB570 million in FY2024 and THB1.9 billion in FY2025.
- Total investment of THB2.1 billion during FY2023-FY2025.

RATING OUTLOOK

The "stable" outlook reflects the expectation that AEROTHAI will maintain its status as a state-owned enterprise with 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 which 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 2023, the Thai government held a 91% stake in the company, with the remaining share held by 94 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. 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 this approval, the company is not required to renew its service agreement with MOT.

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 5-50 nautical miles from an airport. Beyond that distance, responsibility falls 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.

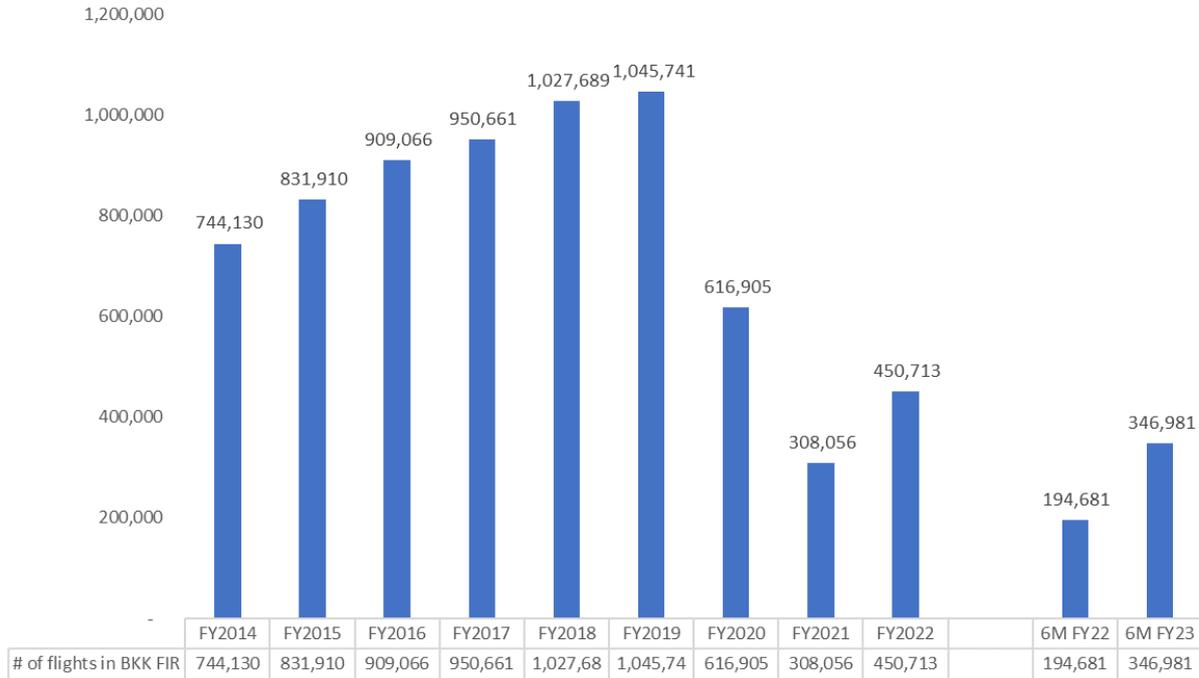
At its inception in 1948, AEROTHAI was responsible only for area control services. In 1998, the government transferred aerodrome control and approach control services at all provincial airports to the company. This move gave AEROTHAI monopoly status in air traffic services. Currently, the company provides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

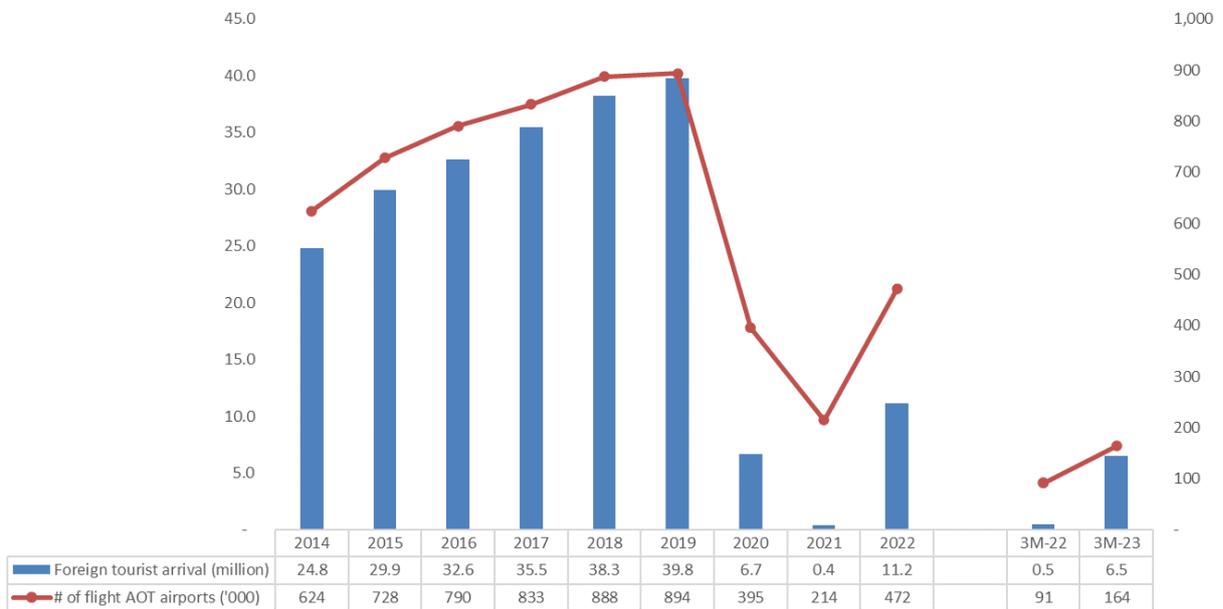
KEY OPERATING PERFORMANCE

Chart 1: Number of Flights in Bangkok Flight Information Region



Sources: AEROTHAI

Chart 2: 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)

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Oct 2022- Mar 2023	-----Year Ended 30 September -----			
		2022	2021	2020	2019
Total operating revenues	4,265	5,458	3,076	7,229	13,042
Earnings before interest and taxes (EBIT)	(190)	(2,166)	(4,823)	(2,164)	(857)
Income over (under) expenses	(232)	(2,308)	(4,910)	(2,186)	848
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	392	(918)	(3,552)	(943)	2,054
Funds from operations (FFO)	350	(1,060)	(3,639)	(965)	2,045
Adjusted interest expense	41	142	87	22	9
Capital expenditures	44	237	764	895	1,187
Total assets	9,842	10,276	10,441	13,674	17,344
Adjusted debt	5,692	6,356	4,532	287	0
Adjusted equity	1,021	1,022	995	998	1,043
Adjusted Ratios					
EBITDA interest coverage (times)	9.46	(6.45)	(40.89)	(43.09)	229.57
Debt to EBITDA (times)	6.59	(6.93)	(1.28)	(0.30)	0.00
FFO to debt (%)	12.33	(16.68)	(80.30)	(336.46)	n.m.
Debt to capitalization (%)	84.79	86.15	81.99	22.32	0.00

* Consolidated financial statements

n.m. = Not meaningful

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Government-Related Entities Rating Methodology, 30 July 2020

Aeronautical Radio of Thailand Ltd. (AEROTHAI)

Company Rating:	AAA
Rating Outlook:	Stable

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