

THAI AIRWAYS INTERNATIONAL PLC

No. 8/2018

10 January 2018

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
12/01/16	A	Stable
27/12/13	A+	Negative
17/12/10	A+	Stable
23/01/09	A	Stable
25/07/08	A+	Stable
12/07/04	AA-	Stable
11/09/03	AA-	-

Contacts:

Pramuansap Phonprasert
 pramuansap@trising.com

Chanaporn Pinphithak
 chanaporn@trising.com

Parat Mahuttano
 parat@trising.com

Sasiporn Vajarodaya
 sasiporn@trising.com

WWW.TRISING.COM
Rating Rationale

TRIS Rating affirms the company rating of Thai Airways International PLC (THAI) and the ratings of THAI's outstanding senior unsecured debentures at "A". The ratings reflect THAI's position as a leading international passenger airline in Thailand, plus the benefits of being a member of Star Alliance, the world's largest airline alliance. In addition, the ratings are enhanced from THAI's stand-alone credit profile to reflect its status as a state enterprise and the flag carrier of Thailand. TRIS Rating believes that the government will continue to provide strong support for THAI on a timely basis, especially if any financial difficulties arise at the airline. The ratings, however, are constrained by THAI's high financial leverage, high operating cost, and its vulnerability to unforeseen event risk and fuel price fluctuations.

THAI is a state enterprise, 51% owned by the Ministry of Finance (MOF). THAI is one of the largest full-service airlines in Asia. The company also provides "light premium" airline services, under the "THAISmile" brand, through a wholly-owned subsidiary. THAISmile is responsible for the short haul routes, supporting THAI's overall network at a competitive cost. In December 2017, THAI's network, including destinations served by THAISmile, spanned 70 international destinations with 731 flights per week and 11 domestic destinations with 394 flights per week. In addition, the company also holds a 21.6% stake in NOK Airlines PLC (NOK), the second-largest low-cost carrier (LCC) in Thailand.

To compete efficiently in the industry and expand its market share, THAI formed THAI Group in mid-2017. As THAI Group, THAI, THAISmile, and NOK are expected to work more closely and effectively. Their routes will be more closely synchronized so as to accommodate passengers with connecting flights. Acting in concert, the three airlines will be able to provide comprehensive services for every passenger segment using their combined resources.

THAI's passenger yield (passenger revenue per revenue passenger kilometer or RPK) fell in 2017. The yield fell due to two reasons: the intense competition among airlines, both legacy airlines and LCCs, as well as the abolishment of the fuel surcharge, after the price of jet fuel fell. The yield declined to Bt2.17 per RPK in the first nine months of 2017, compared with Bt2.41 per RPK from the same period of the previous year. However, in the fourth quarter of 2017, THAI resumed levying the fuel surcharge on some routes since fuel costs have risen.

THAI's performance looks better following the implementation of a transformation plan. In the first nine months of 2017, the cabin factor improved to 79.8%, compared with 73.4% in the same period last year. The rise was caused by a 15.8% year-on-year (y-o-y) increase in RPK after a drop in fares. In addition, foreign tourist arrivals to Thailand increased by 5.1% y-o-y to 26.1 million persons. In the first nine months of 2017, THAI's total market share, measured by numbers of passengers, increased slightly to 22% from 21.5% in the same period of the previous year.

Increases in the cost of fuel and other non-fuel costs squeezed profitability. The operating profit margin declined to 16.9% in the first nine months of 2017, from 19.8% in the same period of the previous year, due to an 11% y-o-y increase in the jet fuel cost. In addition, the company was unable to reduce non-fuel costs as planned. In the first nine months of 2017, non-fuel costs per available seat kilometer (ASK) was Bt1.37, compared with Bt1.35 per ASK in the same period of the previous year. Going forward, any improvement in profitability will hinge on

THAI's ability to improve operational efficiency and the continuation of the cost cutting program.

THAI's capital structure is weak. Large debt-funded capital expenditures, coupled with significant erosion in its net worth, due to severe losses in the past couple of years, pushed the debt-to-capitalization ratio to 88%. Based on its plan to renew the existing fleet of aircraft, the capital structure is expected to stay at this level.

Liquidity has weakened but remains at an acceptable level. Funds from operations (FFO) was Bt20,365 million in 2016 and Bt14,934 million in the first nine months of 2017. The adjusted FFO to total debt ratio declined from 11% in 2016 to 9.5% (annualized, from the trailing 12 months) in the first nine months of 2017. The adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio was 3.1 times during 2016 through the first nine months of 2017. At the end of September 2017, the company's liquidity buffer included Bt18,625 million of cash on hand and Bt25,580 million of available credit facilities. FFO is forecast to range between Bt18,000 million to Bt20,000 million per annum. This level should be sufficient to match the planned uses of funds. During the next 12 months, THAI must make principal repayments of Bt31,335 million and repay outstanding short-term obligations of Bt4,359 million. In addition, capital expenditures are budgeted at around Bt14,000 million in 2018. TRIS Rating expects that the company will maintain a sufficient cushion to service debt maturities and deal with any unexpected events.

During 2018-2020, TRIS Rating forecasts that THAI's revenue will grow at a modest rate. In the forecast, the price of jet fuel is assumed to be approximately US\$80 per barrel. The operating profit margin is forecast at 20%, based on the assumption that THAI can reduce operating costs. Cash flow protection is expected to improve slightly with the FFO to total debt ratio staying over 10% and the EBITDA interest coverage ratio staying at around 3 times.

Rating Outlook

The "stable" outlook reflects the expectation that THAI's operating performance will improve as planned. The ratings could be lowered if the operating profit margin deteriorates significantly or if TRIS Rating believes that the level of government support will be reduced.

The ratings and/or outlook are unlikely to be upgraded in the near term. However, the ratings and/or outlook could be revised upward if the integration of the airline operations under the Thai Group and execution of transformation plan are success. Such success would encourage THAI's operating performance to improve significantly or the debt to EBITDA ratio stays below 5 times on a sustained basis.

Thai Airways International PLC (THAI)

Company Rating:	A
Issue Ratings:	
THAI185A: Bt1,555 million senior unsecured debentures due 2018	A
THAI185B: Bt1,445 million senior unsecured debentures due 2018	A
THAI185C: Bt5,000 million senior unsecured debentures due 2018	A
THAI188A: Bt1,250 million senior unsecured debentures due 2018	A
THAI189A: Bt1,000 million senior unsecured debentures due 2018	A
THAI192A: Bt1,000 million senior unsecured debentures due 2019	A
THAI192B: Bt1,200 million senior unsecured debentures due 2019	A
THAI190A: Bt1,500 million senior unsecured debentures due 2019	A
THAI19DA: Bt1,230 million senior unsecured debentures due 2019	A
THAI19DB: Bt500 million senior unsecured debentures due 2019	A
THAI204A: Bt1,500 million senior unsecured debentures due 2020	A
THAI206A: Bt1,000 million senior unsecured debentures due 2020	A
THAI208A: Bt1,250 million senior unsecured debentures due 2020	A
THAI209A: Bt1,500 million senior unsecured debentures due 2020	A
THAI212A: Bt1,000 million senior unsecured debentures due 2021	A
THAI215A: Bt833 million senior unsecured debentures due 2021	A
THAI215B: Bt2,167 million senior unsecured debentures due 2021	A
THAI21DA: Bt1,340 million senior unsecured debentures due 2021	A
THAI21DB: Bt500 million senior unsecured debentures due 2021	A
THAI222A: Bt2,000 million senior unsecured debentures due 2022	A
THAI224A: Bt2,000 million senior unsecured debentures due 2022	A
THAI226A: Bt1,000 million senior unsecured debentures due 2022	A
THAI229A: Bt2,500 million senior unsecured debentures due 2022	A

THAI220A: Bt1,500 million senior unsecured debentures due 2022	A
THAI238A: Bt1,500 million senior unsecured debentures due 2023	A
THAI23DA: Bt1,000 million senior unsecured debentures due 2023	A
THAI242A: Bt1,000 million senior unsecured debentures due 2024	A
THAI243A: Bt1,500 million senior unsecured debentures due 2024	A
THAI246A: Bt1,000 million senior unsecured debentures due 2024	A
THAI24DA: Bt1,430 million senior unsecured debentures due 2024	A
THAI254A: Bt2,300 million senior unsecured debentures due 2025	A
THAI259A: Bt3,000 million senior unsecured debentures due 2025	A
THAI26DA: Bt3,000 million senior unsecured debentures due 2026	A
THAI276A: Bt3,000 million senior unsecured debentures due 2027	A
THAI28DA: Bt2,000 million senior unsecured debentures due 2028	A
THAI326A: Bt2,000 million senior unsecured debentures due 2032	A

Rating Outlook: Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Sep 2017	2016	2015	2014	2013	2012
Sales	140,034	178,312	182,727	188,368	206,336	209,123
Gross interest expense	3,594	5,339	5,898	6,073	6,057	5,836
Net income from operations	1,163	2,958	(4,499)	(21,919)	(3,835)	2,069
Funds from operations (FFO)	14,934	20,365	15,631	2,948	19,960	25,361
Capital expenditures	9,383	6,910	16,619	15,717	38,088	40,576
Total assets	287,889	283,124	302,471	307,267	307,085	304,096
Total debt	167,109	167,383	192,403	191,852	176,350	158,685
Total debt (operating lease adjusted)	236,183	221,348	232,029	228,207	197,692	167,190
Shareholders' equity	29,928	33,588	32,926	41,296	56,919	69,818
Operating income before depreciation and amortization as % of sales	16.9	18.3	11.7	3.3	9.6	13.5
Pretax return on permanent capital (%)	3.3**	4.8	2.1	(5.0)	1.4	4.5
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.1	3.1	2.5	0.9	3.0	4.3
FFO/total debt (%)	9.5**	11.0	8.0	2.1	10.7	15.5
Total debt/capitalization (%)	88.8	86.8	87.6	84.7	77.6	70.5

Note: All ratios are operating lease adjusted

* Consolidated financial statements

** Annualized from the trailing 12 months

TRIS Rating Co., Ltd.

Tel: 0-2098-3000 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

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