Press Release

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TRIS Rating Assigns Company & Senior Unsecured Debt Ratings Worth Up to Bt1,600 Million of "TAA" at "A-" with "Stable" Outlook

TRIS Rating has assigned the company rating of Thai AirAsia Co., Ltd. (TAA) and the rating of TAA's proposed issue of up to Bt1,600 million in senior unsecured debentures at "A-" with "stable" outlook. The proceeds from the debentures will be used to refinance TAA's debts. The rating reflects TAA's position as the leading low cost carrier (LCC) airline in Thailand, cost efficiency, the synergy with AirAsia Berhad (AAB) and its affiliate, the AirAsia Group, and the ongoing growth of the Thai tourism industry. However, these strengths are partially offset by intense competition in the industry plus TAA's relatively high leverage, exposure to volatile fuel prices, currency risk, and event risks.

The "stable" outlook is based on the expectation that TAA will maintain its dominant position in the LCC industry in Thailand. TAA's cost management efficiency and versatile operation are expected to withstand seasonal and external factors affecting the airline industry as a whole. A rating upgrade is unlikely in the near term based on its current financial profile. In contrast, the downside risk scenario will materialize if TAA's financial performance deteriorates substantially or if financial leverage is raised significantly above the current level.

TAA, a member of the AirAsia Group, is the largest LCC in Thailand. The company was founded in 2003 through a joint venture (JV) between AAB and Shin Corporation PLC (SHIN). In 2006, SHIN sold its entire shareholding in TAA to Asia Aviation PLC (AAV), a holding company established by TAA's management team at that time. Currently, AAV is the major shareholder of TAA with a 55% equity stake. The other 45% stake is held by AAB. At the end of December 2016, TAA provided flight services on 40 international routes with 423 flights per week, and 30 domestic routes with 728 flights per week. TAA's flight trajectories cover destinations within a flight distance of four and a half hours from Thailand.

The core strategy of TAA's LCC business model is to provide the lowest fares in its service areas. TAA benefits from the synergy with the AirAsia Group, by pooling the procurement of aircraft and fuel and gaining access to the AirAsia Group's network of connecting flights to many more destinations.

In response to the growing popularity of LCCs, TAA has significantly increased its capacity, having a compound annual growth rate (CAGR), measured as available seat kilometers (ASK), of 18% during the last five years. TAA's business model, centering on offering affordable flights, is a proven model, as shown by the steady rise in passenger traffic. Revenue passenger kilometers (RPK) of TAA grew at a CAGR of 19% during 2012-2016, and the cabin factor remained over 81% during the past five years. In 2016, the company's market share was 14.1% of total passenger traffic in and out of the airports operated by Airports of Thailand PLC (AOT), second only to Thai Airways International PLC (THAI), which had a 20% share.

During the past five years, TAA's revenue grew by an average of 15% annually. Total revenue jumped from Bt19,349 million in 2012 to Bt32,401 million in 2016. However, revenue can be severely affected by external events and intense price competition as seen in 2014. During 2011-2015, the operating profit margin held steadily at 23%-24%, except in 2014 when the operating profit margin dropped to 17%. In 2016, the operating profit margin rose to 28%, thanks to a substantial drop in the price of jet fuel.

As of December 2016, the company had 51 aircraft, of which 35 were under operating leases, 14 were under financial leases, and two were the company's own aircraft. TRIS Rating considers the company's net present values of the operating leases as financial obligations. Total debt, including operating leases, was Bt35,952 million at the end of December 2016. The level of debt has increased significantly during the last five years as TAA acquired more aircraft. Despite the rise in debt, the adjusted debt to capitalization ratio declined from 84% in 2012 to 80% in 2016 thanks to the retention of earnings, which increased TAA's equity base. From 2017 to 2019, the company is scheduled to receive 15 new aircraft, or five aircraft each year, translating into total capital expenditures of approximately Bt15,500 million for these three years.

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TAA's liquidity is considered strong, supported by a sizable balance of cash on hand. At the end of December 2016, the company had Bt6,629 million in cash and liquid assets, considered as a sufficient amount to service debt repayment obligations of Bt1,792 million in 2017 and help cushion the impact of volatile fuel prices. Funds from operations (FFO) were Bt4,352 million in 2015 and Bt4,405 million in 2016. As a result, the adjusted FFO to total debt ratio was 19.1% during 2015-2016. The adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio improved, rising to 3.3 times in 2015 and 3.8 times in 2016.

TRIS Rating remains positive on the prospects for the Thai tourism industry. Foreign tourist arrivals are expected to continue rising strongly in the medium term. TRIS Rating projects TAA's total revenue to grow by approximately 12% per annum over the next three years in tandem with its capacity expansion plans. The adjusted profit margin is forecast to stay around 25%, based on the load factor of above 83%, and jet fuel prices of around US$70 per barrel. Debt is expected to increase resulting from its new aircraft acquisition plan. However, the solid operating results will likely enhance TAA's equity base and keep the adjusted debt to capitalization ratio below 80%. Overall, TRIS Rating's base case projections see TAA's adjusted FFO to total debt ratio to improve to approximately 20% and the EBITDA interest coverage ratio to rise to around 4.9 times by 2019.

Thai AirAsia Co., Ltd. (TAA)	
Company Rating:	A-
Issue Rating:	
Up to Bt1,600 million senior unsecured debentures due within five years	A-
Rating Outlook:	Stable

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