

# THAI AIRASIA CO., LTD.

No. 23/2021  
11 March 2021

## CORPORATES

<b>Company Rating:</b>	B+
<b>Issue Ratings:</b>	
Senior unsecured	B
<b>CreditAlert:</b>	Negative

Last Review Date: 13/08/20

### Company Rating History:

Date	Rating	Outlook/Alert
13/08/20	BB	Alert Negative
02/04/20	BBB-	Alert Negative
20/02/20	BBB+	Negative
30/03/17	A-	Stable

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## RATIONALE

TRIS Rating downgrades the company rating on Thai AirAsia Co., Ltd. (TAA) to “B+” from “BB” and downgrades the ratings on TAA’s senior unsecured debentures to “B” from “BB”. At the same time, TRIS Rating maintains CreditAlert with a “negative” implication on the ratings on TAA. The downgrade reflects TAA’s negative equity position from the deeper deterioration in TAA’s operating performance than our previous projection, mainly due to the aggravating impacts of the second Coronavirus Disease 2019 (COVID-19) outbreak. The prolonged outbreak and the slow resumption of international travel will continue to pressure TAA’s operations in 2021 with the tendency of pushing the company’s equity into a deeper negative territory.

The ratings are also constrained by the company’s tightening liquidity position, high financial leverage, fuel price fluctuations, currency risk, and the continued uncertainty on the recovery path of the aviation industry. TAA’s leading position in the low-cost carrier (LCC) airline segment in Thailand and its cost efficiency remain the strengths that support its business risk profile.

The issue rating is one notch below the company’s rating reflecting the subordination of senior unsecured debentures to TAA’s secured debt. The outstanding secured debt represented 76% of TAA’s total assets as of the end of December 2020. The recovery ratio of net unsecured assets to net unsecured debt was 33%.

## KEY RATING CONSIDERATIONS

### Weakening performance from new virus outbreak

We expect TAA’s operating performance to continue to weaken in 2021 but then gradually recover in 2022-2023. After the 100% resumption of its domestic capacity in the fourth quarter of 2020 following the first COVID-19 outbreak, the company reduced its capacity again in the first quarter of 2021 due to the second outbreak, which started in late December 2020. The demand for domestic air travel plunged driven by heightening concerns among travelers on infections even though the government did not implement nationwide lockdown measures. However, we expect the government will be able to contain the new outbreak in the first quarter of 2021 and TAA should be able to resume most of its domestic flights in the second quarter. International flights may not resume until the last quarter of 2021 due to the slow rollout of vaccination programs in Thailand and other countries. The company plans to recommence its international flights in the last quarter of 2021, gradually adding to its international capacities in 2022. Therefore, we expect TAA will post a significant net loss in 2021, with operations gradually improving in 2022 and 2023. TAA’s equity is likely to plunge into deeper negative territory in 2021 and will likely take some time to recover to a positive figure.

Under our base-case scenario, we project TAA’s revenue to total around THB13 billion 2021, before improving to around THB28 billion in 2022 and THB32 billion in 2023. We expect TAA’s earnings before interest, tax, depreciation, and amortization (EBITDA) margin to be around 14% in 2021, then to improve to around 20% in 2022 and 2023. To alleviate the impacts of the outbreak, the company continues to control operating expenses, negotiating with its suppliers to defer certain fixed-charge expenses, and

postponing new aircraft acquisitions. During 2021-2023, we project the jet fuel price will remain in the range of US\$60-US\$65 per barrel.

#### **Lack of international passengers resulted in plunging average ticket prices**

The company's average ticket prices have declined substantially since the suspension of international flights. As the average international ticket fare is almost double the average domestic ticket price, TAA's average ticket price has declined from THB1,428 per ticket in 2019 to THB1,100-THB1,200 during 2020-2021. We project the average ticket price will increase to the THB1,350-THB1,400 per ticket range in 2022 and 2023 after international flights recommence.

#### **COVID-19 impacts cabin factor**

TAA's cabin factor declined as a result of the COVID-19 outbreak. The pandemic significantly lowered demand for air travel due to concerns over the possibility of infection. In response, the company suspended or reduced the frequency of flights. TAA's cabin factor is expected to hover around 74% in 2021, then gradually improve to the range of 78%-80% during 2022-2023 in tandem with the recovery of air travel.

#### **High leverage but improvement expected**

We expect TAA's leverage to remain high in 2021 but to improve in 2022 and 2023. The ratio of debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) is likely to stay over 15 times in 2021, due to the weak operating performance. The ratio should improve to around 8-9 times in 2022 and 2023 in line with the projected improvement of TAA's operating performance. Over the next few years, the company's fleet is expected to comprise around 56-58 aircraft, and its debt to capitalization ratio will likely remain above 100%.

#### **Liquidity concerns**

Our main concern is the company's stretched liquidity over the next six months. TAA's sources of funds comprise cash and liquid assets worth THB1 billion. We estimate the company will record a net cash outflow of around THB3 billion in 2021. The company is in the process to negotiate with all lessors to defer rent payments in 2021 to next year. TAA's scheduled repayment of outstanding debts (excluding lease obligations) over the next 12 months includes THB2.3 billion in long-term obligations, of which THB1.5 billion are debentures due in June 2021. The company is in the process of seeking an agreement with the debenture holders for a partial or deferred payment of the debentures. For other long-term loans, the company is negotiating with all lenders to postpone principal payments to other year. In addition, the company has THB1 billion in short-term obligations. The company expects to roll over all of its short-term obligations. To improve its liquidity position, TAA is in the process of securing funds from new bank loans, soft loans from the government, or new capital injections. We view liquidity risk has heightened significantly with mounting pressure from payment obligations while the company's ability to secure funding is highly uncertain.

Some of the company's credit facilities require financial covenants of its net liability to total equity ratio to remain below 4 times and the net interest-bearing debt to total equity ratio to remain below 3 times. With the severe deterioration in financial results, TAA breached its financial covenants in 2020. However, the company has already obtained waivers from the lenders for breaches of those financial covenants.

#### **BASE-CASE ASSUMPTIONS**

For the three-year period from 2021 to 2023, TRIS Rating's assumptions are as follows:

- Revenues to be THB13 billion in 2021, increasing to around THB28 billion in 2022 and THB32 billion in 2023.
- EBITDA margin to be 14% in 2021, improving to around 20% in 2022 and 2023.
- Average jet fuel price to be in the range of US\$60-US\$65 per barrel.
- Capital expenditures (excluding aircraft acquisition) to be THB500 million for three years forecast.
- Debt to EBITDA ratio to be over 15 times in 2021, improving to around 8-9 times in 2022 and 2023.

#### **CREDIT ALERT**

The "negative" CreditAlert reflects our concerns over the company's stretched liquidity in the near term pressured by its upcoming maturing debentures, and the uncertainty of its business recovery following the latest outbreak of COVID-19 and the pace and effectiveness of vaccinations. We will resolve the CreditAlert when the company has demonstrated ability to improve its liquidity position. The rating could be upgraded if the company has a concrete plan to restore its equity base.

## COMPANY OVERVIEW

TAA was founded in 2003 through a joint venture between AAB and Shin Corporation PLC or SHIN (renamed Intouch Holdings PLC (INTOUCH) on 31 March 2014). In 2006, SHIN sold its 51% stake in TAA to Asia Aviation PLC (AAV), a holding company established by TAA's management team at that time. Since 2012, after purchasing 3,555,600 newly-issued shares, AAV has held 55% of TAA's outstanding shares.

TAA is the leading LCC in Thailand. The company is a member of the AirAsia Group which launched services under the "TAA" brand in 2004. TAA's strategy is to provide the lowest fares with quality service, safety, and reliability. Its service trajectories cover point-to-point international and domestic destinations within a four-and-a-half-hour flight distance of Thailand. Currently, the company operates from six hubs in Thailand: Suvarnabhumi, Don Muang, Phuket, Chiang Mai, Krabi, and U-Tapao.

During the past three years, passenger fares accounted for the majority (80%) of the company's total revenue. The remaining 20% came from other passenger-related service fees.

## KEY OPERATING PERFORMANCE

**Table 1: Total Passengers and Market Share of TAA**

*Unit: Million passengers*

		2013	2014	2015	2016	2017	2018	2019	2020
<b>International</b>	Industry	55.2	52.1	62.5	68.4	75.8	81.1	85.8	15.4
	TAA's passengers	4.1	4.8	5.6	6.5	7.3	8.2	9.1	1.4
	TAA's share (%)	7.5	9.2	8.9	9.4	9.7	10.1	10.6	9.4
<b>Domestic</b>	Industry	33.1	38.4	47.3	53.3	57.3	59.3	57.2	31.1
	TAA's passengers	6.4	7.4	9.3	10.8	12.5	13.4	13.0	8.1
	TAA's share (%)	19.2	19.3	19.6	20.2	21.7	22.6	22.8	25.8
<b>Total</b>	Industry	88.3	90.5	109.8	121.7	133.1	140.5	143.0	46.5
	TAA's passengers	10.5	12.2	14.8	17.2	19.8	21.6	22.1	9.5
	TAA's share (%)	11.9	13.5	13.5	14.2	14.9	15.4	15.5	20.4

Sources: 1) TAA  
2) Airports of Thailand PLC (AOT)

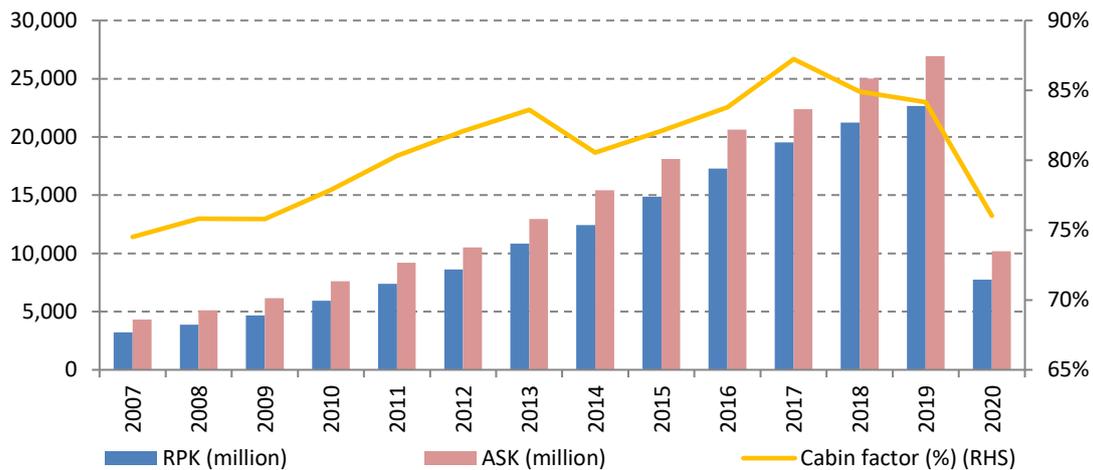
**Table 2: LCC Passengers and Market Share of TAA**

*Unit: Million passengers*

		2013	2014	2015	2016	2017	2018	2019	2020
<b>International</b>	Industry	10.3	11.3	15.0	19.2	22.9	27.1	32.0	4.9
	TAA's share (%)	40.4	42.6	37.2	33.7	32.1	30.1	28.6	29.4
<b>Domestic</b>	Industry	18.0	24.1	31.3	35.5	39.5	42.5	40.8	24.7
	TAA's share (%)	35.3	30.7	29.6	30.3	31.5	31.5	31.9	32.6
<b>Total</b>	Industry	28.3	35.4	46.3	54.7	62.4	69.6	72.7	29.6
	TAA's share (%)	37.2	34.5	32.1	31.5	31.7	31.0	30.5	32.0

Sources: 1) TAA  
2) AOT

Chart 1: TAA's Cabin Factor



Source: TAA  
ASK = Million Seat-Kilometers  
RPK = Million Passenger-Kilometers

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	14,359	41,201	39,949	36,958	33,054
Earnings before interest and taxes (EBIT)	(7,402)	1,365	2,127	4,827	5,389
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(1,663)	7,219	7,285	9,887	9,552
Funds from operations (FFO)	(2,820)	4,983	5,286	7,748	7,571
Adjusted interest expense	1,819	2,237	2,210	2,173	2,165
Capital expenditures	823	385	2,411	2,452	775
Total assets	45,130	39,067	37,918	38,902	32,739
Adjusted debt	38,496	38,384	39,131	33,156	33,123
Adjusted equity	(3,496)	6,838	7,778	10,622	9,289
<b>Adjusted Ratios</b>					
EBITDA margin (%)	(11.58)	17.52	18.23	26.75	28.90
Pretax return on permanent capital (%)	(17.39)	2.73	4.21	9.79	11.55
EBITDA interest coverage (times)	(0.91)	3.23	3.30	4.55	4.41
Debt to EBITDA (times)	(23.15)	5.32	5.37	3.35	3.47
FFO to debt (%)	(7.33)	12.98	13.51	23.37	22.86
Debt to capitalization (%)	109.99	84.88	83.42	75.74	78.10

## RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**Thai AirAsia Co., Ltd. (TAA)**

<b>Company Rating:</b>	B+
<b>Issue Ratings:</b>	
TAA216A: THB1,500 million senior unsecured debentures due 2021	B
TAA225A: THB600 million senior unsecured debentures due 2022	B
TAA236A: THB1,000 million senior unsecured debentures due 2023	B
<b>CreditAlert:</b>	Negative

**TRIS Rating Co., Ltd.**

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