

# THAI AIRASIA CO., LTD.

No. 40/2023  
23 March 2023

## CORPORATES

<b>Company Rating:</b>	BB+
<b>Issue Rating:</b>	
Senior unsecured	BB
<b>Outlook:</b>	Stable

Last Review Date: 08/03/22

### Company Rating History:

Date	Rating	Outlook/Alert
08/03/22	BB	Negative
16/08/21	B	Alert Negative
11/03/21	B+	Alert Negative
13/08/20	BB	Alert Negative
02/04/20	BBB-	Alert Negative
20/02/20	BBB+	Negative
30/03/17	A-	Stable

### Contacts:

Chanaporn Pinphithak  
chanaporn@trisrating.com

Tulyawat Chatkam  
tulyawatc@trisrating.com

Parat Mahuttano  
parat@trisrating.com

Pramuansap Phonprasert  
pramuansap@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating upgrades the company rating on Thai AirAsia Co., Ltd. (TAA) to “BB+”, from “BB” and upgrades the ratings on TAA’s senior unsecured debentures to “BB”, from “BB-”. At the same time, we revise the rating outlook to “stable”, from “negative”.

The ratings actions reflect our expectation that air traffic recovery momentum will continue over the next few quarters, supported by strong pent-up demand from China following the lifting of its lengthy zero-COVID policy. Also, the current competitive landscape should allow TAA to deploy its capacity and be able to pass on heightened fuel costs to customers. This should enable TAA to steadily improve its operating results, as well as regain financial strength.

The company rating on TAA incorporates its stand-alone credit profile (SACP) of “bb+” and its status as a “core” subsidiary of Asia Aviation PLC (AAV) as per our “Group Rating Methodology”. The company rating on TAA continues to reflect the strengths as a market leader in the low-cost carrier (LCC) segment in Thailand and its cost efficiency. The ratings also consider the volatile and cyclical nature of the aviation industry, as well as fuel price fluctuations and economic headwinds, which could weigh on the prospects of TAA’s business and financial recovery.

## KEY RATING CONSIDERATIONS

### Recovering air traffic

We expect air traffic demand to continue recovering, driven mainly by strong pent-up demand from China. We anticipate that air traffic volume will rebound strongly throughout 2023 and exceed pre-pandemic levels by 2025.

In the fourth quarter of 2022, TAA’s number of passengers carried showed significant improvement at 4.1 million, which was 75% of pre-pandemic levels. Improvement was driven mainly by strong recovery in domestic routes of 92% of pre-pandemic levels while international routes remained at 50% of the pre-pandemic levels. We expect demand for domestic routes to remain solid, approaching the pre-pandemic levels this year. Meanwhile we anticipate a robust rebound in international passengers, contributed mainly by strong pent-up demand from Chinese travelers after the lengthy zero-COVID restrictions were lifted. We expect a mass number of Chinese tourists to start arriving in the second half of 2023 when several travel hindrances, for example infrastructure bottlenecks and slow processing of passport issuance in China, abate.

Our base-case scenario projects TAA to ramp up its capacity to 85%-90% of pre-pandemic levels in 2023 and improve to 90%-95% in 2024 before surpassing the pre-pandemic levels in 2025. Considering the competitive landscape of the airline industry in which many of TAA’s rivals scaled down capacities, especially fleets and manpower, during the pandemic and may need a longer period than TAA to ramp up capacity, we project TAA’s cabin factor to remain high at 85%-86% during 2023-2025.

### Sustained high ticket prices

With the current competitive landscape in the aviation industry, we believe TAA will be able to increase the average ticket price corresponding to high and fluctuating fuel prices. The increasing proportion of international flights should also help sustain high ticket prices over the next couple of years. Our base-

case projection forecasts the average ticket price to increase to THB1,650-THB1,800 per ticket in 2023-2025 from THB1,434 per ticket in 2022. The assumption factors in our forecast of the jet fuel price at USD100-USD110 per barrel during 2023-2025.

A key downside risk to TAA's ability to raise fares is that of economic headwinds resulting in weakening discretionary spending including leisure travel demand, TAA's main target group. However, we view that strong pent-up demand from China should alleviate the risk in coming quarters. Another key risk factor is a competitive environment that could lead to excessive price competition. Nevertheless, we are convinced that the financial damage that airlines suffered during the pandemic will likely deter price competition for at least the next 12-24 months, as airlines prioritize cashflow over market share.

### Earnings revival

Incorporating our view on capacity increase and rising ticket price, our base-line projection forecasts TAA's revenue to rebound strongly to THB40-THB41 billion in 2023 and improve to around THB43 billion in 2024 and THB50 billion in 2025. Profitability is also projected to significantly improve given our view on TAA's ability to pass on the heightened fuel cost to customers. Also, we view that the benefits from the cost structure rationalization implemented during the pandemic, especially personnel cost, should allow TAA to strengthen its profitability. We project the company's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to emerge from negative territory to around 16% in 2023 and 18%-20% during 2024-2025. This will translate into EBITDA of around THB6.6 billion in 2023 and THB8.3-THB9.3 billion per annum during 2024-2025.

### Improving financial profile

Strong earnings improvement will allow TAA to restore its financial health. Our base-case projection forecasts TAA's leverage, as measured by adjusted debt to EBITDA ratio, to improve to 5-7 times during 2023-2025. Although we expect significant improvement in TAA's earnings, we do not expect the leverage to decline further than projected considering TAA's new fleet acquisition plan starting in 2024, which will add its adjusted debts to around THB48 billion in 2024-2025 from THB43.8 billion in 2022.

At the end of December 2022, TAA's priority debt to total debt ratio was 56%. Its priority debt included secured debt of THB3.7 billion and financial lease obligations of THB1.2 billion out of the total interest-bearing debt of THB8.6 billion. As the priority debt ratio was above our trigger level of 50%, we view that TAA's unsecured creditors could be at a significantly disadvantaged position to its priority debt holders with respect to claims against the company's assets. Thus, we rate TAA's senior unsecured debentures at "BB", one notch below its company rating.

The main financial covenant on TAA's loan obligations require the company's net interest bearing debt to equity ratio to remain below 3 times. TAA was unable to comply with the covenant in 2022. However, TAA had already obtained the covenant waiver from the lender. We expect TAA to continue its covenant waiver request for at least the next two years due to its negative equity. At the end of December 2022, TAA's equity was negative THB13 billion. We expect the company's equity will continue to be in negative territory at least until 2025.

### Liquidity to be manageable

We view TAA's liquidity to remain tight but expect it to be manageable over the next 12 months, given the much improving operating conditions. TAA's sources of funds comprise cash and cash equivalent of THB794 million at the end of 2022 and funds from operations (FFO) estimated at THB4.6 billion. Uses of funds are debt repayment, including THB750 million in short-term loans, THB828 million in long-term debts, THB1.75 billion in debentures, and lease obligations of THB4.3 billion. TAA plans to refinance and/or rollover parts of its maturing debts. We expect the company to continue its prudent liquidity management, providing a cushion against any adverse operating conditions until business recovery is on a firm sustainable path.

### BASE-CASE ASSUMPTIONS

- Revenues to be THB40-THB41 billion in 2023 and improve to around THB43 billion in 2024 and THB50 billion in 2025.
- EBITDA margin around 16% in 2023 and 18%-20% during 2024-2025.
- Average jet fuel price range between USD100-USD110 per barrel in 2023-2025.
- Capital expenditures (excluding aircraft acquisition) to total THB200 million per annum during 2023-2025.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that TAA's earnings capability and financial strength will steadily improve as air traffic demand continues to recover, bolstered by strong pent-up demand from China. Furthermore, the favorable competitive landscape should enable TAA to increase its capacity and charge higher ticket fares.

## RATING SENSITIVITIES

A rating upside could materialize if TAA consistently delivers better-than-projected operating results on a firm path to sustainable credit metric restoration. A rating/outlook could be revised downward if the recovery is interrupted by any operating headwinds resulting in much weaker-than-expected financial performances and/or liquidity deteriorates materially.

## COMPANY OVERVIEW

TAA was founded in 2003 through a joint venture between AirAsia Berhad (AAB) and Shin Corporation PLC (or SHIN, formally renamed Intouch Holdings PLC (INTOUCH) on 31 March 2014). In 2006, SHIN sold its 51% stake in TAA to AAV, a holding company established by TAA's management team at that time. In 2012, AAV acquired 3,555,600 newly issued shares, raising its shareholding to 55% while AAB was diluted to 45%. Following shareholding restructuring in January 2022, TAA is currently 100% owned by AAV.

TAA is the leading LCC in Thailand. The company is a member of the AirAsia Group which launched services under the "Thai AirAsia" 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.

## KEY OPERATING PERFORMANCE

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

*Unit: Million passengers*

		2015	2016	2017	2018	2019	2020	2021	2022
<b>International</b>	Industry	62.5	68.4	75.8	81.1	85.8	15.5	1.6	24.0
	TAA's passengers	5.6	6.5	7.3	8.2	9.1	1.4	0	2.0
	TAA's share (%)	8.9	9.4	9.7	10.1	10.6	9.3	0	8.4
<b>Domestic</b>	Industry	47.3	53.3	57.3	59.3	57.2	31.1	14.6	38.8
	TAA's passengers	9.3	10.8	12.5	13.4	13.0	8.1	2.9	7.9
	TAA's share (%)	19.6	20.2	21.7	22.6	22.8	25.8	20.1	20.5
<b>Total</b>	Industry	109.8	121.7	133.1	140.5	143.0	46.6	16.2	62.8
	TAA's passengers	14.8	17.2	19.8	21.6	22.1	9.5	2.9	9.9
	TAA's share (%)	13.5	14.2	14.9	15.4	15.5	20.3	18.1	15.8

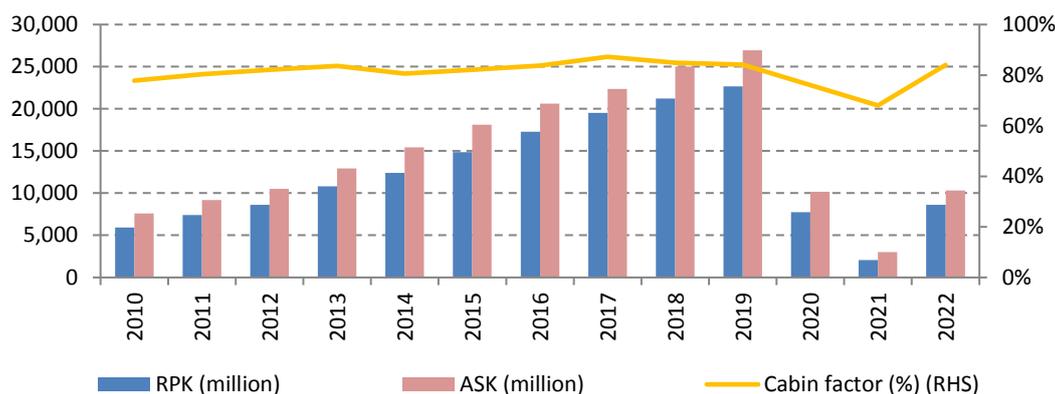
Sources: 1) TAA  
2) Airports of Thailand PLC (AOT)

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

*Unit: Million passengers*

		2015	2016	2017	2018	2019	2020	2021	2022
<b>International</b>	Industry	15.0	19.2	22.9	27.1	32.0	4.9	0.1	7.4
	TAA's share (%)	37.2	33.7	32.1	30.1	28.6	29.4	0	27.1
<b>Domestic</b>	Industry	31.3	35.5	39.5	42.5	40.8	24.7	11.4	29.9
	TAA's share (%)	29.6	30.3	31.5	31.5	31.9	32.6	25.7	26.5
<b>Total</b>	Industry	46.3	54.7	62.4	69.6	72.7	29.6	11.5	37.3
	TAA's share (%)	32.1	31.5	31.7	31.0	30.5	32.0	25.6	26.6

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 -----				
	2022	2021	2020	2019	2018
Total operating revenues	17,867	4,116	14,359	41,178	39,949
Earnings before interest and taxes (EBIT)	(7,316)	(8,717)	(7,948)	1,364	2,127
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(1,202)	(3,339)	(2,209)	7,219	7,285
Funds from operations (FFO)	(3,440)	(5,175)	(4,027)	4,981	5,074
Adjusted interest expense	2,238	1,835	1,819	2,237	2,210
Capital expenditures	720	100	823	385	2,411
Total assets	43,960	45,509	45,130	39,067	37,918
Adjusted debt	43,783	47,661	38,496	38,384	39,131
Adjusted equity	(12,905)	(10,955)	(3,496)	6,838	7,778
<b>Adjusted Ratios</b>					
EBITDA margin (%)	(6.73)	(81.12)	(15.38)	17.53	18.23
Pretax return on permanent capital (%)	(21.18)	(23.74)	(18.67)	2.73	4.21
EBITDA interest coverage (times)	(0.54)	(1.82)	(1.21)	3.23	3.30
Debt to EBITDA (times)	(36.42)	(14.27)	(17.43)	5.32	5.37
FFO to debt (%)	(7.86)	(10.86)	(10.46)	12.98	12.97
Debt to capitalization (%)	141.79	129.85	109.99	84.88	83.42

## RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

---

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

---

<b>Company Rating:</b>	BB+
<b>Issue Rating:</b>	
TAA236A: THB1,000 million senior unsecured debentures due 2023	BB
<b>Rating Outlook:</b>	Stable

---

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2023, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)