

THAI AIRASIA CO., LTD.

No. 34/2024
21 March 2024

CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 23/03/23

Company Rating History:

Date	Rating	Outlook/Alert
23/03/23	BB+	Stable
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

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RATIONALE

TRIS Rating upgrades the company rating on Thai AirAsia Co., Ltd. (TAA) to “BBB-”, from “BB+” with a “stable” rating outlook. The rating revision reflects our expectation that TAA’s operating performance and financial metrics will continue to improve, bolstered by ongoing positive momentum in air traffic demand. The prevailing industrywide capacity constraints are expected to help maintain high fares, supporting the company's profitability despite challenges posed by fluctuating fuel prices and increased operational expenses.

The company rating on TAA incorporates its stand-alone credit profile (SACP) of “bbb-” 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 its strengths as a market leader in the low-cost carrier (LCC) segment in Thailand and its cost efficiency. The rating also considers the inherent volatility and cyclicity of the aviation industry, fluctuations in fuel prices, and economic headwinds, which could deter the company’s recovery prospects.

KEY RATING CONSIDERATIONS

Favorable demand-supply dynamics

While demand for air traffic continues to be strong post-pandemic, supply chain disruption in the aviation industry persists and needs time to recover. Longer maintenance and overhaul periods from the shortage of engines, spare parts, and manpower, as well as delays in new aircraft deliveries remain key hindrances for airlines to scale up capacity.

We view that TAA is well positioned to capitalize on this demand due to its fleet and resources retained during the pandemic, compared with other operators. We expect TAA to continue ramping up its capacity to 85%-95% of pre-pandemic levels during 2024-2025 and surpassing pre-pandemic levels in 2026. We also forecast a cabin factor of 86%-87% throughout the forecast period. While we expect resilient domestic demand to persist in the coming quarters, international market will take longer to fully recover considering the degree of dependency on the Chinese market. However, we anticipate TAA’s network expansions, particularly in South Asia, to partially offset slower recovery in the Chinese market. We believe that demand for routes in China will gradually improve, aided in part by measures such as the free visa initiative.

Fares likely to remain high

We view the current competitive landscape with constraint capacity industrywide as a key factor maintaining high airfares, enabling TAA to pass on increased fuel prices and heightened operating expenses to passengers.

We project TAA’s average fare to increase to THB1,900-THB2,020 per passenger in 2024-2026 from THB1,780 per passenger in 2023. We also forecast ancillary revenue per passenger at THB425-THB450 during the forecast period, compared with THB407 in 2023. The growing proportion of international flights is the main factor contributing to the higher airline fare and increased ancillary revenue. We also view that after suffering huge losses during the pandemic, the industry is now focusing on regaining profitability. This should prevent unreasonable pricing competition, at least in the next couple of years.

Earnings on a rise amid heightened cost pressure

Our base-case projection forecasts TAA's revenue will continue to increase to THB47-THB58 billion per annum during 2024-2026 from THB42 billion in 2023, based on our expectations of capacity increases and rising fares. However, we view a weak macroeconomic backdrop as a threat that could potentially dampen demand for air traffic, particularly if fares continue to rise.

We expect TAA's profitability to be under pressure from heightened costs. We assume the jet fuel prices will remain high at USD100-USD110 per barrel. The company is exposed to fuel price fluctuations as it does not employ hedging tools. However, implementation of fuel surcharges could partially mitigate this risk. Also, other operating costs such as maintenance, repair, and overhaul expenses, as well as ramp and airport operating costs have seen substantial increases due to supply chain disruptions induced by the COVID-19 and inflation. Labor shortages in repair and maintenance work and ground handling, along with heightened costs of spare parts, will continue to exert pressure on TAA's profitability. We project the company's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to reach 15%-17%, translating into EBITDA of THB8-THB9 billion per annum during 2024-2026.

Improving financial metrics and liquidity position

We anticipate TAA's leverage to show continued improvement, with an adjusted debt to EBITDA ratio of 4.5-5.5 times during 2024-2026, from 6 times in 2023. The forecast incorporates the new fleet acquisition of 3-5 aircraft annually. We view TAA's liquidity to be more manageable over the next 12 months. TAA's sources of funds comprise cash and cash equivalent of THB1.2 billion at the end of 2023 and funds from operations (FFO) estimated at THB5.4 billion. Uses of funds are debt repayment, including THB1.3 billion in short-term loans, THB2.5 billion in long-term debts and debentures, and lease obligations of THB5.8 billion. The improving operating conditions and earnings capabilities are expected to provide support for TAA to refinance and/or rollover parts of its maturing debts.

At the end of December 2023, TAA's priority debt to total debt ratio was 50%. Its priority debt included secured debt of THB3.8 billion and financial lease obligations of THB1.1 billion out of the total interest-bearing debt of THB9.8 billion. As the priority debt ratio hits 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.

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 2023. 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 2023, TAA's equity was negative THB12 billion.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for TAA's operations in 2024-2026 are as follows:

- Revenues of THB47-THB58 billion per annum.
- EBITDA margin of 15%-17%.
- Average jet fuel price to range between USD100-USD110 per barrel.
- Capital expenditures (excluding aircraft acquisition) of THB200-THB210 million per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TAA's operating performance will continue to improve, buoyed by solid air traffic demand and the favorable competitive landscape. This should enable the company to safeguard its profit margins and improve its financial metrics despite fluctuations in oil prices and heightened operating expenses.

RATING SENSITIVITIES

The rating could be upgraded if TAA consistently delivers better-than-projected operating results, demonstrating a firm trajectory toward restoring sustainable credit metrics. Conversely, the rating/outlook could be revised downward if recovery is interrupted by any adverse operating conditions resulting in much weaker-than-expected financial performances and/or TAA's 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. At the end of 2023, TAA had a total fleet of 56 aircraft; 54 Airbus A320s and two Airbus A321s. 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

		2016	2017	2018	2019	2020	2021	2022	2023
International	Industry	68.4	75.8	81.1	85.8	15.5	1.6	24.0	59.8
	TAA’s passengers	6.5	7.3	8.2	9.1	1.4	0	2.0	7.0
	TAA’s share (%)	9.4	9.7	10.1	10.6	9.3	0	8.4	11.7
Domestic	Industry	53.3	57.3	59.3	57.2	31.1	14.6	38.8	46.1
	TAA’s passengers	10.8	12.5	13.4	13.0	8.1	2.9	7.9	11.9
	TAA’s share (%)	20.2	21.7	22.6	22.8	25.8	20.1	20.5	25.7
Total	Industry	121.7	133.1	140.5	143.0	46.6	16.2	62.8	105.9
	TAA’s passengers	17.2	19.8	21.6	22.1	9.5	2.9	9.9	18.9
	TAA’s share (%)	14.2	14.9	15.4	15.5	20.3	18.1	15.8	17.8

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

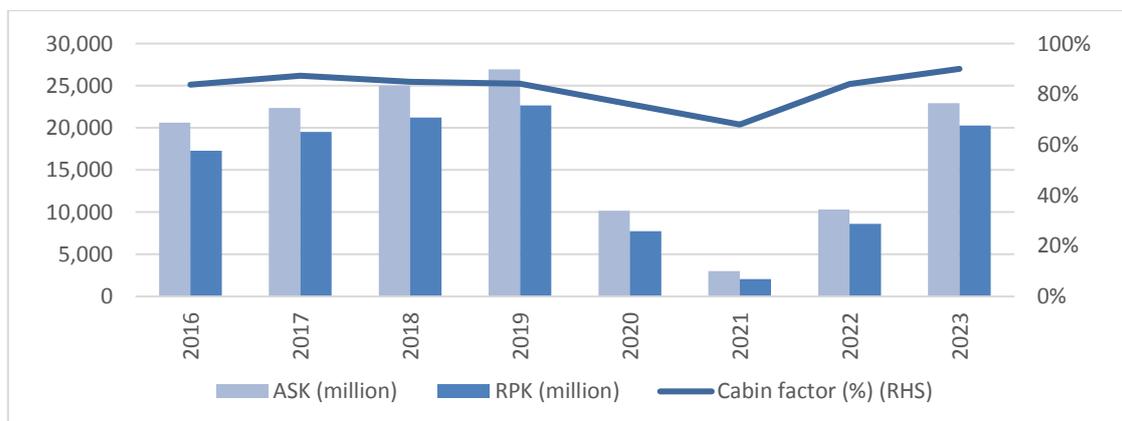
Table 2: LCC Passengers and Market Share of TAA

Unit: Million passengers

		2016	2017	2018	2019	2020	2021	2022	2023
International	Industry	19.2	22.9	27.1	32.0	4.9	0.1	7.4	22.9
	TAA’s share (%)	33.7	32.1	30.1	28.6	29.4	0	27.1	30.7
Domestic	Industry	35.5	39.5	42.5	40.8	24.7	11.4	29.9	35.8
	TAA’s share (%)	30.3	31.5	31.5	31.9	32.6	25.7	26.5	33.1
Total	Industry	54.7	62.4	69.6	72.7	29.6	11.5	37.3	58.7
	TAA’s share (%)	31.5	31.7	31.0	30.5	32.0	25.6	26.6	32.2

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 -----				
	2023	2022	2021	2020	2019
Total operating revenues	42,206	17,867	4,116	14,359	41,178
Earnings before interest and taxes (EBIT)	2,092	(7,316)	(8,717)	(7,948)	1,364
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,085	(1,202)	(3,339)	(2,209)	7,219
Funds from operations (FFO)	4,772	(3,440)	(5,175)	(4,027)	4,981
Adjusted interest expense	2,312	2,238	1,835	1,819	2,237
Capital expenditures	332	720	100	823	385
Total assets	47,026	43,960	45,509	45,130	39,067
Adjusted debt	42,647	43,783	47,661	38,496	38,384
Adjusted equity	(12,428)	(12,905)	(10,955)	(3,496)	6,838
Adjusted Ratios					
EBITDA margin (%)	16.8	(6.7)	(81.1)	(15.4)	17.5
Pretax return on permanent capital (%)	6.6	(21.2)	(23.7)	(18.7)	2.7
EBITDA interest coverage (times)	3.1	(0.5)	(1.8)	(1.2)	3.2
Debt to EBITDA (times)	6.0	(36.4)	(14.3)	(17.4)	5.3
FFO to debt (%)	11.2	(7.9)	(10.9)	(10.5)	13.0
Debt to capitalization (%)	141.1	141.8	129.8	110.0	84.9

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)

Company Rating:	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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