Thanachart Securities

BUY (Unchanged) | **TP: Bt 69.00** (From: Bt 72.00) | **19 MAY 2021**

Change in Numbers | **Upside : 13.6%**

Airports of Thailand Pcl (AOT TB)

Recovery delayed

Despite the government's plan to reopen by January next year, the new COVID-19 wave makes us concerned about tourist confidence in travel. We now assume a slower passenger recovery to the FY19 level in FY24F. Despite cutting our TP to Bt69, we reaffirm our BUY on AOT as we still see it as the best play when COVID-19 subsides.

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Passenger recovery to FY19 level in FY24F

Even though the government is maintaining its plan to lift quarantine requirements for vaccinated foreign tourists who travel to Phuket in 3Q21, five more provinces in 4Q21 and all provinces in January 2022, resurgence of COVID-19 and slow vaccine rollouts leave us concerned about tourist confidence in travelling. We now assume a slower passenger recovery back to the FY19 level in FY24F instead of FY23F previously (see Exhibits 1-2). We also factor in 1) higher depreciation expenses due to IFRS 16 and 2) 4-25% lower capex in FY21-23F as we assume a two-year delay in its airport expansion projects. As such, a cut in our earnings forecasts cause our DCF-based 12-month TP to fall to Bt69/share from Bt72. Our new TP is already rolled over to a FY22F base year (AOT's fiscal year ends in September).

Reaffirming BUY

Nevertheless, we reaffirm our BUY on AOT as, ***first***, the risks look priced in as the share price is down 13% from its peak this year after the third wave of COVID-19 began. ***Secondly***, AOT, the largest airport monopoly operator, remains the most direct and highest operating-leverage play once the Thai tourism industry eventually turns around. ***Thirdly***, despite assuming only 75% of FY19's international passengers, we expect AOT's earnings to recover to the FY19 level in FY23F due to a rise in concession revenues from the re-implementation of the minimum guarantee for the new duty-free concessions in April 2022. ***Finally,*** if the government can follow its reopening plan, we expect the share price to start reacting positively in late 2021.

Minimum guarantee reapplied in April 2022

Due to COVID-19, AOT waived the minimum-guarantee collection for the duty-free concessions until March 2022. Despite our view of a slow passenger recovery, we don't expect AOT to extend the assistance measures if Thailand reopens to vaccinated foreign tourists in January 2022. The minimum guarantee is now also based on a fixed amount per passenger, meaning the fewer the passengers, lower the minimum guarantee. The minimum guarantee under the current duty-free concession at Suvarnabhumi Airport (SIA) is at Bt233 per international passenger vs. Bt97 under the previous one that ended in FY20.

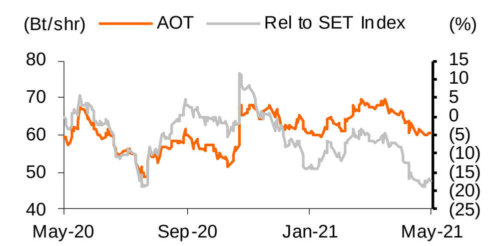
Short-term cash shortage not a concern

The continued loss in FY22F causing a cash shortage for AOT next year (vs. cash of Bt26bn at end 2QFY21) is not a concern to us as we don't expect AOT to face difficulties in getting loans or debentures next year (Bt25bn maximum according to AOT's plan) given its current net cash position and Bt43bn-55bn of EBITDA generation after the passenger recovery in FY23-24F.

COMPANY VALUATION

Y/E Sep (Bt m)	2020A	2021F	2022F	2023F
Sales	31,179	8,161	23,607	66,430
Net profit	4,321	(13,979)	(6,041)	23,518
Norm profit	5,403	(13,979)	(6,041)	23,518
Consensus NP	—	(11,072)	9,589	27,826
Diff frm cons (%)	—	*na*	*na*	*(15.5)*
Prev. Norm profit	—	(10,975)	20,237	33,122
Chg frm prev (%)	—	*na*	*na*	*(29.0)*
Norm EPS (Bt)	0.4	(1.0)	(0.4)	1.6
Norm EPS grw (%)	(78.0)	na	na	na
Norm PE (x)	160.6	na	na	36.9
EV/EBITDA (x)	79.1	na	165.6	20.0
P/BV (x)	6.1	6.6	6.6	5.8
Div yield (%)	0.3	0.0	0.0	1.6
ROE (%)	3.6	na	na	16.8
Net D/E (%)	(22.7)	(11.0)	(1.3)	(4.8)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 19-May-21 (Bt)	60.75
Market Cap (US$ m)	27,579.0
Listed Shares (m shares)	14,285.7
Free Float (%)	30.0
Avg Daily Turnover (US$ m)	50.3
12M Price H/L (Bt)	69.75/49.00
Sector	Transportation
Major Shareholder	Ministry of Finance 70%

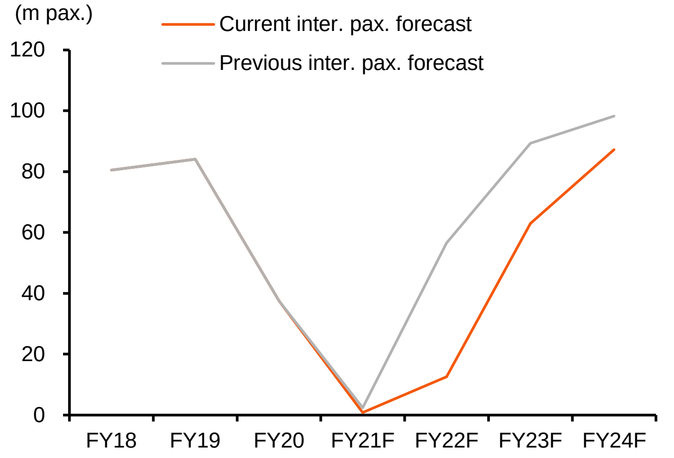
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Key Assumption Changes

	FY21F	FY22F	FY23F
International passengers (m pax.)			
New	0.8	12.6	63.0
Old	2.4	56.5	89.3
Change (%)	*(66.7)*	*(77.7)*	*(29.5)*
Domestic passengers (m pax.)			
New	21.4	42.6	55.5
Old	35.9	54.3	56.2
Change (%)	*(40.4)*	*(21.5)*	*(1.2)*
Capex (Bt bn)			
New	18.0	22.2	20.1
Old	18.8	29.6	23.7
Change (pp)	*(4.3)*	*(25.0)*	*(15.2)*

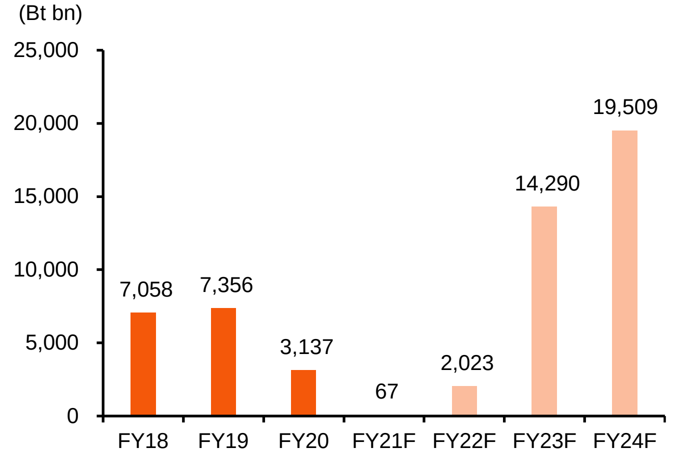
Source: Thanachart estimates

Ex 2: Our Current Vs. Previous Inter. Pax. Forecasts



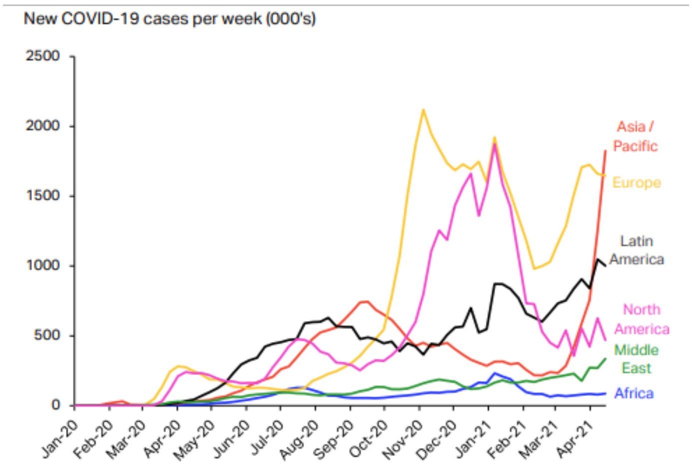
Sources: Company data, Thanachart estimates

Ex 3: Duty-free & Commercial Concession Revenue At SIA



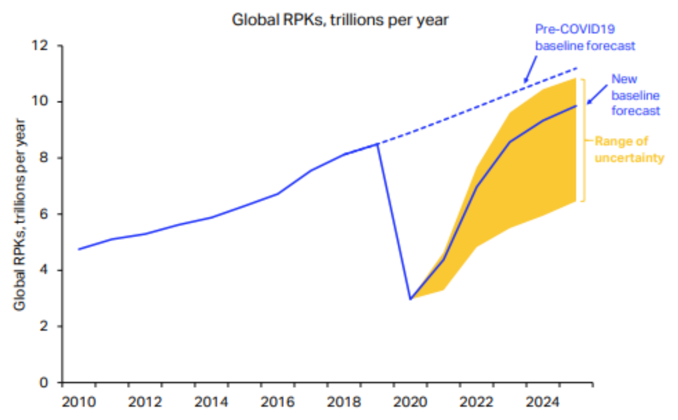
Sources: Company data, Thanachart estimates

Ex 4: Global new daily COVID-19 cases have risen



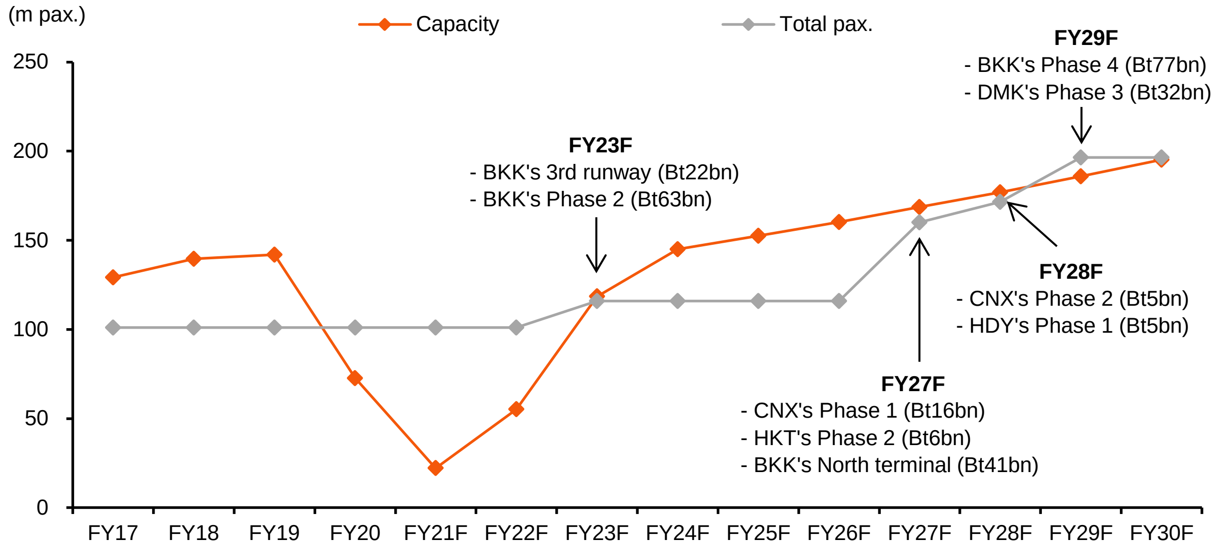
Source: ECDC

Ex 5: IATA Forecast RPKs Recovery To 2019 Level In 2024



Source: IATA

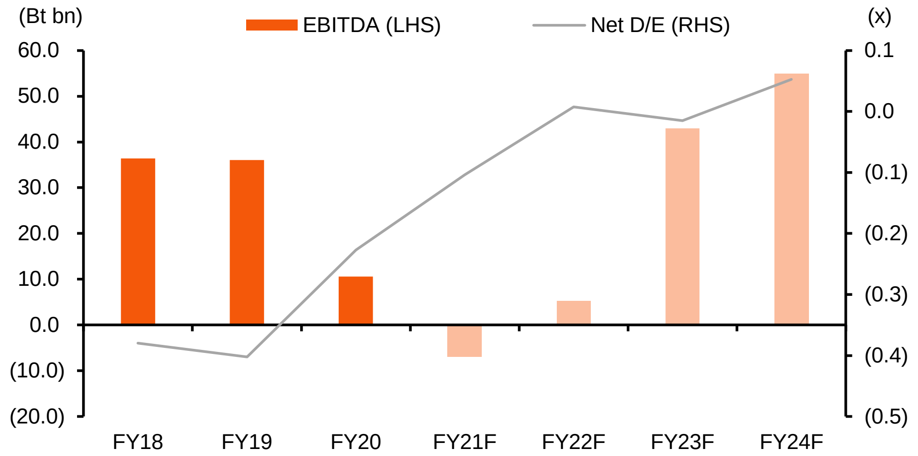
Ex 6: AOT's Capacity Vs. Total Passengers



Sources: Company data, Thanachart estimates

Note: BKK - Suvarnabhumi Airport, DMK - Don Muang International Airport, CNX - Chiang Mai International Airport
HKT - Phuket International Airport, HDY - Had Yai International Airport

Ex 7: AOT's EBITDA Vs. Net D/E Ratio



Sources: Company data, Thanachart estimates

Ex 8: 12-month DCF-based TP Calculation Using A Base Year Of FY22F

(Bt m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	Terminal value
EBITDA excl. depreciation from right of use	5,208	42,971	54,788	59,404	67,666	72,621	82,048	88,101	94,597	101,557	109,029	—
Free cash flow	(17,074)	12,500	29,010	20,868	13,511	22,367	38,705	65,075	70,155	75,643	81,533	2,097,627
PV of free cash flow	(17,027)	10,873	23,529	15,510	9,324	14,332	23,024	35,942	35,977	34,483	34,354	551,610

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.9
WACC (%)	7.2
Terminal growth (%)	2.0
Enterprise value - add investments	975,220
Net debt (FY21F)	(14,477)
Minority interest	790
Equity value	988,907
# of shares (m)	14,286
Equity value/share (Bt)	**69.0**

Sources: Thanachart estimates

Valuation Comparison

Ex 9: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (%)	P/BV 22F (%)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div yield 21F (%)	Div yield 22F (%)
Sydney Airport	SYD AU	Australia	na	120.3	84.8	38.4	20.0	46.7	22.8	18.0	3.6	5.7
Beijing Capital Int'l	694 HK	China	69.9	na	na	29.2	1.0	1.0	48.1	10.5	0.3	1.7
Shenzhen Airport Co	000089 CH	China	na	36.0	36.8	27.1	1.4	1.3	21.6	15.4	0.6	0.8
Xiamen Int'l Airport	600897 CH	China	133.2	9.7	12.8	11.7	1.3	1.2	5.8	5.5	2.5	2.6
Shanghai Int'l Airport	600009 CH	China	na	na	na	33.9	3.1	2.9	na	22.6	0.0	0.7
Fraport Frankfurt Airport	FRA GR	Germany	78.5	na	na	23.7	1.5	1.4	29.9	13.6	0.0	1.2
Japan Airport Terminal	9706 JP	Japan	71.2	na	na	69.4	2.5	2.5	47.8	14.3	0.2	0.4
Grupo Aeroportuario	ASURB MM	Mexico	81.8	52.5	30.6	20.1	3.0	2.8	15.9	11.7	2.1	3.1
SATS Ltd	SATS SP	Singapore	na	na	na	51.5	2.8	2.7	34.7	18.9	0.0	1.3
Airports of Thailand*	AOT TB	Thailand	na	na	na	na	6.6	6.6	na	165.6	0.0	0.0
Average			**86.9**	**54.6**	**41.3**	**33.9**	**4.3**	**6.9**	**28.3**	**29.6**	**0.9**	**1.8**

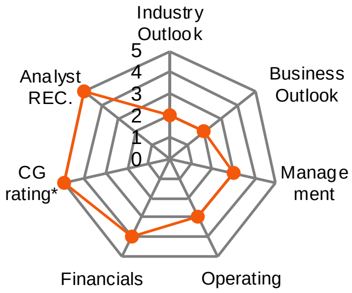
Source: Bloomberg
Note: * Thanachart estimates using normalized EPS
Based on 19 May 2021 closing prices

COMPANY DESCRIPTION

The Airports of Thailand (AOT) was corporatized from a state enterprise and is Thailand's leading airport business operator. AOT is responsible for six international airports: Don Mueang, Phuket, Chiang Mai, Had Yai, Chiang Rai and Suvarnabhumi, all of which accommodate both domestic and international flights. With commercial operations beginning on 28 September 2006, Suvarnabhumi serves as the main airport and can accommodate up to 45m passengers and 3m tonnes of cargo a year. Within a single hour, the airport can operate up to 76 flights.

Source: Thanachart

COMPANY RATING



Rating Scale	
Very Strong	**5**
Strong	**4**
Good	**3**
Fair	**2**
Weak	**1**
None	**0**

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- AOT is an airport monopoly.
- As a state enterprise, the company's operations and finances receive support from the government.

W — Weakness

- AOT has little revenue diversity so its quarterly earnings are volatile and follow the different tourism seasons.
- Unclear direction due to changes in government policies have caused AOT to miss out on the chance of benefiting fully from Thailand's strong tourism industry.

O — Opportunity

- Thailand is a very popular destination for tourists.
- Strong economic growth in the Asia-Pacific is boosting the tourism industry in the region.
- The Thai healthcare industry is also spurring medical tourism to Thailand.

T — Threat

- Airport competition is fierce. Many airports in Asia are reducing fees to attract airlines.
- Disease outbreaks present a threat to the industry.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	69.76	69.00	-1%
Norm profit 21F (Bt m)	(11,072)	(13,979)	na
Norm profit 22F (Bt m)	9,589	(6,041)	na
Consensus REC	**BUY: 17**	**HOLD: 5**	**SELL: 5**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our FY21-23F earnings are lower than the Bloomberg consensus estimates, which we attribute to us having factored in a slower passenger recovery.
- However, our DCF-based TP is 1% below the Street's number, likely as we are more bullish on AOT's long-term earnings growth prospects.

Sources: Bloomberg consensus, Thanachart forecasts

RISKS TO OUR INVESTMENT CASE

- Thailand's tourism industry is a component of the world economy and there is no doubt that tourism would be negatively affected by any global economic volatility.
- If the COVID-19 outbreak doesn't subside by year end, it may have a significant impact on our passenger growth forecasts.
- The possibility of political interference and corruption is also of concern. As a state enterprise, AOT's major investments still have to be approved by the cabinet. Hence, any delays in getting cabinet approval would have a negative impact on AOT's earnings streams.

Source: Thanachart

Despite it being AOT's worst year, we expect negative EBITDA of only Bt7bn on low cash costs

We estimate EBITDA to recover strongly to Bt43bn in FY23F…

…driven by a passenger recovery and more duty-free concession revenue

AOT had total cash on hand and short-term investments of Bt26bn at end 2QFY21

INCOME STATEMENT

FY ending Sep (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	62,783	31,179	8,161	23,607	66,430
Cost of sales	21,215	17,194	17,657	21,456	25,465
Gross profit	**41,568**	**13,985**	**(9,496)**	**2,151**	**40,965**
% gross margin	66.2%	44.9%	-116.4%	9.1%	61.7%
Selling & administration expenses	11,343	8,870	6,121	7,554	9,300
Operating profit	**30,225**	**5,115**	**(15,617)**	**(5,403)**	**31,665**
% operating margin	48.1%	16.4%	-191.4%	-22.9%	47.7%
Depreciation & amortization	5,851	5,441	8,645	10,634	11,344
EBITDA	**36,077**	**10,556**	**(6,971)**	**5,231**	**43,009**
% EBITDA margin	57.5%	33.9%	-85.4%	22.2%	64.7%
Non-operating income	1,601	1,951	958	770	770
Non-operating expenses	0	0	0	0	0
Interest expense	(815)	(646)	(2,823)	(2,897)	(2,978)
Pre-tax profit	**31,012**	**6,419**	**(17,482)**	**(7,530)**	**29,457**
Income tax	6,389	1,038	(3,496)	(1,506)	5,891
After-tax profit	**24,623**	**5,381**	**(13,985)**	**(6,024)**	**23,565**
% net margin	39.2%	17.3%	-171.4%	-25.5%	35.5%
Shares in affiliates' Earnings	0	(0)	0	0	0
Minority interests	(69)	22	6	(17)	(47)
Extraordinary items	472	(1,083)	0	0	0
NET PROFIT	**25,026**	**4,321**	**(13,979)**	**(6,041)**	**23,518**
Normalized profit	**24,554**	**5,403**	**(13,979)**	**(6,041)**	**23,518**
EPS (Bt)	1.8	0.3	(1.0)	(0.4)	1.6
Normalized EPS (Bt)	1.7	0.4	(1.0)	(0.4)	1.6

BALANCE SHEET

FY ending Sep (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	80,787	50,491	24,553	26,151	30,580
Cash & cash equivalent	75,909	43,558	20,000	20,000	20,000
Account receivables	3,582	3,225	844	2,442	6,872
Inventories	0	0	0	0	0
Others	1,296	3,709	3,709	3,709	3,709
Investments & loans	1,087	648	648	648	648
Net fixed assets	104,069	110,130	119,449	131,003	139,826
Other assets	12,438	12,290	12,575	12,852	13,115
Total assets	**198,382**	**173,559**	**157,225**	**170,653**	**184,169**
LIABILITIES:					
Current liabilities:	26,182	15,333	13,957	17,641	16,658
Account payables	1,509	1,809	1,857	2,257	2,678
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	3,181	2,848	1,418	4,696	3,287
Others current liabilities	21,492	10,677	10,682	10,688	10,693
Total LT debt	**10,516**	**8,245**	**4,105**	**13,596**	**9,515**
Others LT liabilities	7,145	6,949	7,279	7,551	7,809
Total liabilities	**43,843**	**30,527**	**25,342**	**38,788**	**33,982**
Minority interest	640	796	790	807	854
Preferreds shares	0	0	0	0	0
Paid-up capital	14,286	14,286	14,286	14,286	14,286
Share premium	12,568	12,568	12,568	12,568	12,568
Warrants	0	0	0	0	0
Surplus	809	500	500	500	500
Retained earnings	**126,237**	**114,882**	**103,740**	**103,705**	**121,980**
Shareholders' equity	153,899	142,236	131,093	131,058	149,333
Liabilities & equity	**198,382**	**173,559**	**157,225**	**170,653**	**184,169**

Sources: Company data, Thanachart estimates

Given COVID-19, we expect AOT's airport expansions to be delayed for two years

CASH FLOW STATEMENT

FY ending Sep (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	31,012	6,419	(17,482)	(7,530)	29,457
Tax paid	(6,389)	(1,038)	3,496	1,506	(5,891)
Depreciation & amortization	5,851	5,441	8,645	10,634	11,344
Chg In w orking capital	(511)	656	2,430	(1,198)	(4,008)
Chg In other CA & CL / minorities	4,221	(13,011)	2,406	2,286	2,171
Cash flow from operations	**34,186**	**(1,532)**	**(505)**	**5,698**	**33,072**
Capex	(13,586)	(11,502)	(17,950)	(22,165)	(20,130)
Right of use	0	0	(300)	(300)	(300)
ST loans & investments	0	0	0	0	0
LT loans & investments	95	440	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	1,554	(1,311)	(2,069)	(2,008)	(1,909)
Cash flow from investments	**(11,937)**	**(12,373)**	**(20,319)**	**(24,473)**	**(22,339)**
Debt financing	(4,115)	(2,462)	(5,570)	12,769	(5,491)
Capital increase	0	0	0	0	0
Dividends paid	(14,998)	(14,999)	2,837	6,006	(5,243)
Warrants & other surplus	(32)	(985)	0	0	0
Cash flow from financing	**(19,145)**	**(18,446)**	**(2,734)**	**18,775**	**(10,734)**
Free cash flow	**20,599**	**(13,034)**	**(18,455)**	**(16,467)**	**12,942**

VALUATION

FY ending Sep	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	35.3	160.6	na	na	36.9
Normalized PE - at target price (x)	40.1	182.4	na	na	41.9
PE (x)	34.7	200.9	na	na	36.9
PE - at target price (x)	39.4	228.1	na	na	41.9
EV/EBITDA (x)	22.3	79.1	na	165.6	20.0
EV/EBITDA - at target price (x)	25.6	90.3	na	188.1	22.8
P/BV (x)	5.6	6.1	6.6	6.6	5.8
P/BV - at target price (x)	6.4	6.9	7.5	7.5	6.6
P/CFO (x)	25.4	(566.4)	(1,720.1)	152.3	26.2
Price/sales (x)	13.8	27.8	106.3	36.8	13.1
Dividend yield (%)	1.7	0.3	0.0	0.0	1.6
FCF Yield (%)	2.4	(1.5)	(2.1)	(1.9)	1.5
(Bt)					
Normalized EPS	1.7	0.4	(1.0)	(0.4)	1.6
EPS	1.8	0.3	(1.0)	(0.4)	1.6
DPS	1.1	0.2	0.0	0.0	1.0
BV/share	10.8	10.0	9.2	9.2	10.5
CFO/share	2.4	(0.1)	(0.0)	0.4	2.3
FCF/share	1.4	(0.9)	(1.3)	(1.2)	0.9

Sources: Company data, Thanachart estimates

We don't expect AOT to face any financial difficulties…

…given its potential strong recovery in FY23F and current low gearing

FINANCIAL RATIOS

FY ending Sep	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	3.7	(50.3)	(73.8)	189.3	181.4
Net profit (%)	(0.6)	(82.7)	na	na	na
EPS (%)	(0.6)	(82.7)	na	na	na
Normalized profit (%)	(2.5)	(78.0)	na	na	na
Normalized EPS (%)	(2.5)	(78.0)	na	na	na
Dividend payout ratio (%)	59.9	62.8	60.0	60.0	60.0
Operating performance					
Gross margin (%)	66.2	44.9	(116.4)	9.1	61.7
Operating margin (%)	48.1	16.4	(191.4)	(22.9)	47.7
EBITDA margin (%)	57.5	33.9	(85.4)	22.2	64.7
Net margin (%)	39.2	17.3	(171.4)	(25.5)	35.5
D/E (incl. minor) (x)	0.1	0.1	0.0	0.1	0.1
Net D/E (incl. minor) (x)	(0.4)	(0.2)	(0.1)	(0.0)	(0.0)
Interest coverage - EBIT (x)	37.1	7.9	na	na	10.6
Interest coverage - EBITDA (x)	44.3	16.3	na	1.8	14.4
ROA - using norm profit (%)	12.7	2.9	na	na	13.3
ROE - using norm profit (%)	16.5	3.6	na	na	16.8
DuPont					
ROE - using after tax profit (%)	16.5	3.6	na	na	16.8
- asset turnover (x)	0.3	0.2	0.0	0.1	0.4
- operating margin (%)	50.7	22.7	na	na	48.8
- leverage (x)	1.3	1.3	1.2	1.3	1.3
- interest burden (%)	97.4	90.9	119.3	162.5	90.8
- tax burden (%)	79.4	83.8	na	na	80.0
WACC (%)	7.2	7.2	7.2	7.2	7.2
ROIC (%)	26.9	4.7	(11.4)	(3.7)	19.6
NOPAT (Bt m)	23,999	4,288	(12,493)	(4,323)	25,332
invested capital (Bt m)	91,686	109,771	116,616	129,350	142,135

Sources: Company data, Thanachart estimates

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Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, an “Overweight” sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. “Underweight” is used when we have SELLs on majority of the stocks we cover by market cap. “Neutral” is used when there are relatively equal weightings of BUYs and SELLs.

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