BUY (Unchanged)
Change in Numbers

TP: Bt 13.50 (From: Bt 6.50)
Upside : 14.4%

13 July 2021

Small Cap Research

Bangkok Airways Pcl (BA TB)

An accretive deal

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We see BA's deal in paying for the termination of the lease agreement with SPF as value accretive. Thus, we raise our TP for BA to Bt13.5 and maintain our BUY call. Nearer term, however, curbs on interprovincial travel and our view of a slow passenger recovery will likely hit BA's earnings and we expect it to make losses in 2021-22F.

Thanachart Securities

SPF deal adds value

In 2006, BA sold the 30-year leasehold rights for Samui Airport to Samui Property Fund (SPF TB, Bt17.5, BUY) for Bt9.5bn. Under the agreement, BA leases back the airport to operate and pays rent to SPF in the form of revenue sharing with a minimum guarantee. We estimate the average net rent BA paid to SPF for the 30-year contract period is equivalent to around 7% of the Bt9.5bn sale and lease-back proceeds. This includes the COVID years when BA has no revenue to share but it still has to pay a minimum guarantee of Bt570m p.a. BA last month offered SPF unit holders Bt12.6bn (Bt18bn in total minus the amount of BA's 30% stake in SPF) to terminate the agreement. BA plans to finance the deal with debt at a 3-5% interest rate. We estimate average cost savings for BA of Bt200m p.a., calculated as net rent (7%*Bt9.5bn) minus interest (4%*Bt12.6bn). The deal needs to receive SPF unit holders' approval on 14 July, but we take the view that it will get the green light.

Raising our TP to Bt13.5

We raise our DCF-derived SOTP-based 12-month TP (2022F base year) to Bt13.5/share (from Bt6.5) and maintain our BUY rating. ***First***, part of the increase is due to the above-mentioned savings, equivalent to Bt1/share. ***Second***, we had been too conservative on BA's cost savings, and we now raise its airline business value by Bt3.5. ***Third***, we also raise the value of BA's 5.2%-owned Bangkok Dusit Medical Services (BDMS TB, Bt23.3, BUY) by Bt1/BA share from our latest TP for BDMS of Bt26. ***Finally***, the base-year rollover in our model to 2022F increases our TP by Bt1.5/share.

High D/E is not much of a concern

BA plans to finance the SPF deal with debt and we expect its net D/E ratio to rise from 0.6x in 2020 to 1.6x in 2021F. We are not overly concerned about the higher ratio given its investment portfolio's market value of Bt21bn, vs. the potential net debt of Bt25bn in 2021F. The portfolio includes BDMS and 10%-owned Bangkok Aviation Fuel Services (BAFS TB, Bt26.5, not rated).

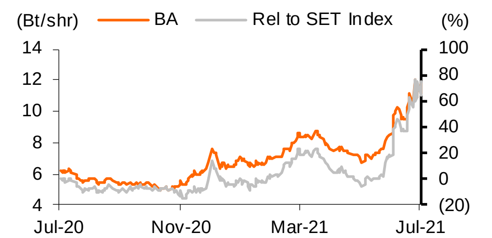
Negative near-term catalysts

Although we still have a BUY rating on BA from a valuation angle, catalysts in the near term are negative with the ongoing third COVID wave and the government's policy to limit interprovincial travel that has led BA to cut its flights. We expect BA to become a reopening play early next year when the country can resume its plans to turn around its earnings in 2023F. Valuation-wise, we believe the market is assigning a negative value to its airline business. Our SOTP breakdown is negative Bt8/share for the airline business and Bt21.5/share for the non-airline business.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	7,666	2,112	5,919	17,464
Net profit	(5,283)	(3,641)	(2,894)	221
Consensus NP	—	(2,958)	(882)	(134)
Diff frm cons (%)	—	*na*	*na*	*na*
Norm profit	(3,839)	(3,641)	(2,894)	221
Prev. Norm profit	—	(1,479)	(699)	(476)
Chg frm prev (%)	—	*na*	*na*	*na*
Norm EPS (Bt)	(1.8)	(1.7)	(1.4)	0.1
Norm EPS grw (%)	na	na	na	na
Norm PE (x)	na	na	na	112.3
EV/EBITDA (x)	na	na	na	26.9
P/BV (x)	1.3	1.6	1.9	1.9
Div yield (%)	0.0	0.0	0.0	0.0
ROE (%)	na	na	na	1.7
Net D/E (%)	59.6	157.6	199.0	172.2

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 13-Jul-21 (Bt)	11.80
Market Cap (US$ m)	759.9
Listed Shares (m shares)	2,100.0
Free Float (%)	36.3
Avg Daily Turnover (US$ m)	1.7
12M Price H/L (Bt)	12.00/4.98
Sector	Transportation
Major Shareholder	Prasarttong-Osoth family 58%

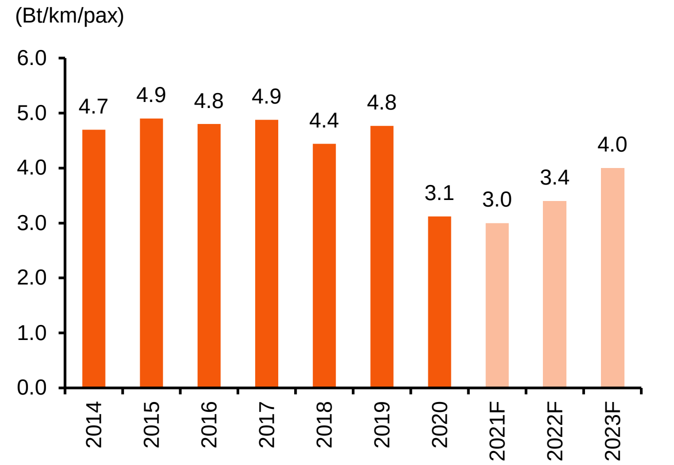
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Key Assumption Changes

	2021F	2022F	2023F
Revenue per available seat kilometer (Bt/ASK)			
New	3.5	3.0	3.4
Old	3.9	4.0	4.0
Change (%)	*(10.3)*	*(25.0)*	*(15.0)*
Cost per available seat kilometer (Bt/ASK)			
New	9.2	4.1	3.1
Old	3.5	3.5	3.5
Change (%)	*162.9*	*17.1*	*11.4*
Cabin factor (%)			
New	55.0	60.0	65.0
Old	69.3	68.9	68.6
Change (pp)	*(14.3)*	*(8.9)*	*(3.6)*
Jet fuel price (US$/bbl)			
New	72.0	80.0	80.0
Old	72.0	74.0	74.0
Change (%)	—	*8.1*	*8.1*

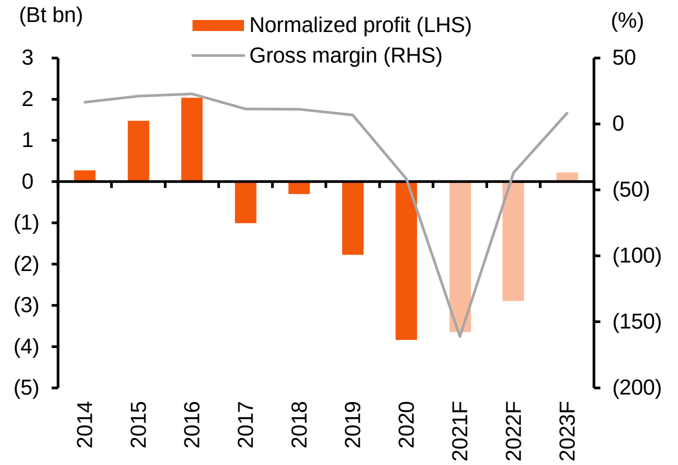
Source: Thanachart estimates

Ex 2: BA's Passenger Yield



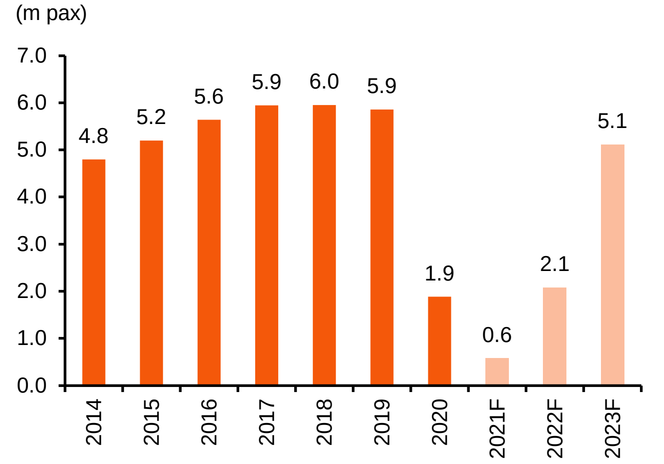
Sources: Company data, Thanachart estimates

Ex 3: BA's Normalized Profit Vs. Gross Margin



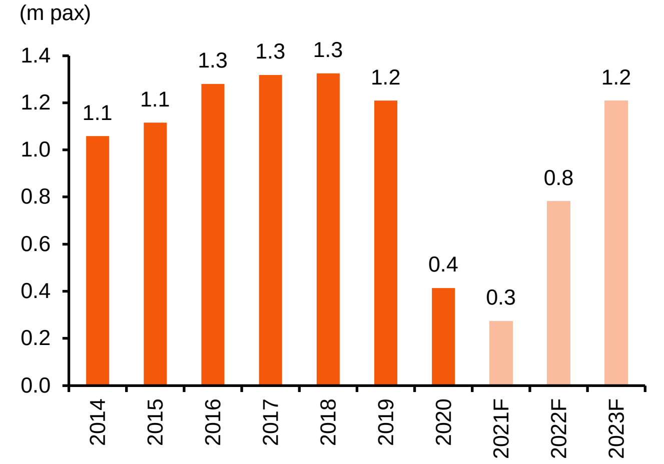
Sources: Company data, Thanachart estimates

Ex 4: BA's Passenger Numbers



Sources: Company data, Thanachart estimates

Ex 5: Samui Airport's Passenger Numbers



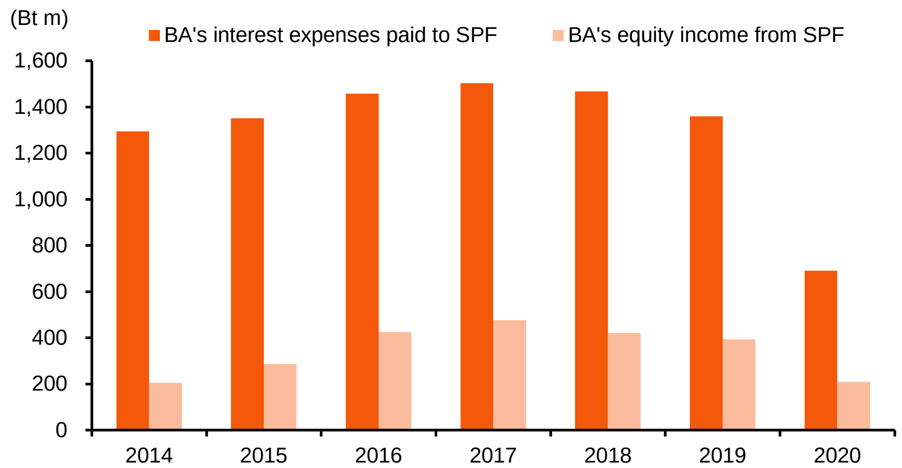
Sources: Company data, Thanachart estimates

Ex 6: Our Sum-of-the-parts Valuation For BA

Bt per BA share	Our current value	Market value
Airline business	-8.0	—
Samui Airport	10.6	—
BDMS	10.3	9.2
BAFS	0.8	0.8
Total	**13.5**	**10.0**

Sources: Bloomberg, Thanachart estimates

Ex 7: BA's Interest Expenses To SPF And BA's Equity Income From SPF



Sources: Company data

Ex 8: 12-month DCF-derived SOTP-based TP, Using A Base Year Of 2022F

(Bt m)		2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA		(1,272)	1,775	2,671	2,851	3,039	3,236	3,441	3,654	3,877	4,139	4,398	—
Free cash flow		(1,535)	830	1,650	(1,111)	2,082	(719)	2,487	(299)	2,921	171	3,431	58,816
PV of free cash flow		(1,434)	725	1,345	(832)	1,450	(466)	1,499	(168)	1,523	80	1,478	25,344
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	1.0												
WACC (%)	7.1												
Terminal growth (%)	2.0												
Enterprise value - add investments	30,545												
Net debt (end 2017F)	25,164												
Minority interest	14												
Equity value	5,366												
# of shares (m)	2,100												
Equity value/share (Bt)	**2.6**												

Sum-of-the-parts	% holding	(Bt m)
Enterprise value from airline business		**30,545**
Investment equity value		**23,280**
BDMS	5.21%	21,527
BAFS	10.00%	1,753
Total enterprise value		**53,826**
(Less) Net debt		(25,164)
(Less) Minority interest		(14)
Total enterprise value		**28,647**
# of shares (fully diluted) (m shares)		2,100
Sum-of-the-parts (Bt)		**13.5**

Sources: Company data, 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 (x)	P/BV 22F (x)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div yield 21F (%)	Div yield 22F (%)
China Southern (China)	600029 CH	China	na	na	na	18.3	1.3	1.2	8.5	7.5	0.2	1.0
China Eastern	600115 CH	China	79.6	na	na	17.6	1.4	1.3	2.6	2.1	0.0	0.9
Air China (China)	601111 CH	China	82.1	na	na	17.0	1.4	1.3	13.2	7.1	0.1	1.0
Singapore Airlines	SIA SP	Singapore	79.7	na	na	38.1	1.2	1.2	13.4	6.7	0.0	0.4
Eva Airways Corp	2618 TT	Taiwan	14.5	17.0	na	na	1.3	1.4	6.6	5.9	na	na
Asia Aviation*	AAV TB	Thailand	na	na	na	23.5	0.8	0.8	96.7	18.4	0.0	1.7
Bangkok Airways*	BA TB	Thailand	na	na	na	na	1.6	1.9	na	na	0.0	0.0
Average			**64.0**	**17.0**	**na**	**22.9**	**1.3**	**1.3**	**23.5**	**8.0**	**0.1**	**0.8**

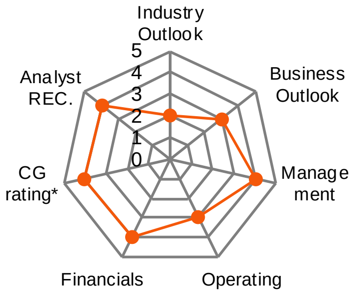
Source: Bloomberg
Note: * Thanachart estimates, using Thanachart normalized EPS

COMPANY DESCRIPTION

Owned by the Prasarttong-Osoth family, Bangkok Airways Pcl (BA) was set up in 1968. Currently, it operates a regional full-service airline based at Suvarnabhumi and Samui airports with flights to both domestic and overseas destinations. It also built its own airport on Samui Island, which was opened in 1989. BA opened its second airport in Sukhothai province in 1996 and its third airport in Trat province in 2003. It was also awarded 20-year concessions at Suvarnabhumi Airport to operate ground handling, cargo handling and catering service businesses, starting from 28 September 2006.

Source: Thanachart

COMPANY RATING



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

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- As the owner of Samui Airport, the airline has a unique advantage in dominating routes from/to Samui Island, allowing it to demand high air ticket prices.
- Its recurring income from holding stakes in SPF and BDMS should help to lessen volatility in its airline business.
- BA's codeshare strategy should allow BA to increase its destinations without having to make huge investments.

W — Weakness

- BA's high operating costs make it difficult to compete directly with low-cost rivals on non-Samui routes.
- Its current airline business is highly dependent on flights from/to Samui Island.
- Most aircraft are operationally leased, resulting in high leasing expenses.

O — Opportunity

- Thailand is one of the top destinations for tourists.
- Samui Island has strong tourism prospects as it is one of the top three overseas travel destinations.
- It is planning to cover some parts of China, the No.1 country in the world by population.

T — Threat

- Samui Airport's capacity limitation and highly volatile jet fuel prices pose major risks.
- Competition in the aviation industry is severe while demand for travel is also dependent on global economic conditions.
- Other transportation methods such as high-speed trains are being developed.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	10.18	13.50	33%
Net profit 21F (Bt m)	(2,958)	(3,641)	na
Net profit 22F (Bt m)	(882)	(2,894)	na
Consensus REC	**BUY: 3**	**HOLD: 3**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F losses are far higher than the Bloomberg consensus numbers, likely due to us anticipating a slower passenger recovery and higher jet fuel prices.
- However, our TP is higher than the consensus likely because of our higher SOTP value for BA's non-airline business.

Sources: Bloomberg consensus, Thanachart forecasts

RISKS TO OUR INVESTMENT CASE

- Fuel expenses account for 20% of BA's total costs. Therefore, fluctuations in jet fuel prices present a major downside risk to our earnings projections.
- Political unrest and natural disasters in Thailand are other downside risks as the company depends a great deal on the domestic market.
- High operating costs could cause BA to be less efficient and make expansion more difficult, which would hinder growth in its earnings base.

Source: Thanachart

We forecast an earnings recovery in 2023…

…driven by a recovery in passenger numbers and passenger yield

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	23,962	7,666	2,112	5,919	17,464
Cost of sales	22,324	10,857	5,512	8,108	16,021
Gross profit	**1,637**	**(3,191)**	**(3,400)**	**(2,189)**	**1,443**
% gross margin	6.8%	-41.6%	-161.0%	-37.0%	8.3%
Selling & administration expenses	4,598	2,384	1,478	1,776	2,445
Operating profit	**(2,960)**	**(5,576)**	**(4,879)**	**(3,965)**	**(1,002)**
% operating margin	-12.4%	-72.7%	-231.0%	-67.0%	-5.7%
Depreciation & amortization	1,422	2,843	2,591	2,693	2,778
EBITDA	**(1,539)**	**(2,733)**	**(2,288)**	**(1,272)**	**1,775**
% EBITDA margin	-6.4%	-35.6%	-108.3%	-21.5%	10.2%
Non-operating income	2,517	2,356	1,830	1,887	1,937
Non-operating expenses	(4)	(2)	0	0	0
Interest expense	(1,769)	(1,117)	(1,127)	(1,241)	(1,190)
Pre-tax profit	**(2,217)**	**(4,338)**	**(4,176)**	**(3,320)**	**(256)**
Income tax	364	100	0	0	0
After-tax profit	**(2,581)**	**(4,439)**	**(4,176)**	**(3,320)**	**(256)**
% net margin	-10.8%	-57.9%	-197.7%	-56.1%	-1.5%
Shares in affiliates' Earnings	809	555	522	391	375
Minority interests	(6)	45	12	34	102
Extraordinary items	2,129	(1,444)	0	0	0
NET PROFIT	**351**	**(5,283)**	**(3,641)**	**(2,894)**	**221**
Normalized profit	**(1,778)**	**(3,839)**	**(3,641)**	**(2,894)**	**221**
EPS (Bt)	0.2	(2.5)	(1.7)	(1.4)	0.1
Normalized EPS (Bt)	(0.8)	(1.8)	(1.7)	(1.4)	0.1

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	12,589	3,257	2,551	2,864	3,814
Cash & cash equivalent	9,319	2,181	2,000	2,000	2,000
Account receivables	1,535	401	110	309	913
Inventories	510	477	242	356	703
Others	1,225	198	198	198	198
Investments & loans	31,971	28,305	28,305	28,305	28,305
Net fixed assets	15,608	9,777	20,186	18,493	16,716
Other assets	1,739	9,263	9,273	9,283	9,293
Total assets	**61,908**	**50,602**	**60,314**	**58,945**	**58,128**
LIABILITIES:					
Current liabilities:	9,257	10,677	12,020	12,372	12,983
Account payables	3,183	1,119	568	836	1,651
Bank overdraft & ST loans	50	1,105	2,165	2,232	1,983
Current LT debt	1,073	92	180	185	165
Others current liabilities	4,950	8,362	9,108	9,119	9,184
Total LT debt	**16,568**	**12,669**	**24,820**	**25,593**	**22,738**
Others LT liabilities	6,079	7,649	7,510	7,910	9,116
Total liabilities	**31,903**	**30,996**	**44,350**	**45,875**	**44,837**
Minority interest	57	14	14	14	14
Preferreds shares	0	0	0	0	0
Paid-up capital	2,100	2,100	2,100	2,100	2,100
Share premium	9,319	9,319	9,319	9,319	9,319
Warrants	0	0	0	0	0
Surplus	18,232	13,562	13,562	13,562	13,562
Retained earnings	**296**	**(5,390)**	**(9,031)**	**(11,925)**	**(11,705)**
Shareholders' equity	29,948	19,591	15,950	13,056	13,277
Liabilities & equity	**61,908**	**50,602**	**60,314**	**58,945**	**58,128**

Sources: Company data, Thanachart estimates

We assume capex of Bt13bn in 2021F…

…to terminate the SPF leasehold agreement

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	(2,217)	(4,338)	(4,176)	(3,320)	(256)
Tax paid	(100)	(378)	12	5	59
Depreciation & amortization	1,422	2,843	2,591	2,693	2,778
Chg In w orking capital	510	(896)	(26)	(45)	(135)
Chg In other CA & CL / minorities	1,081	5,271	1,268	432	483
Cash flow from operations	**696**	**2,501**	**(330)**	**(236)**	**2,928**
Capex	(1,510)	2,989	(13,000)	(1,000)	(1,000)
Right of use	0	(7,763)	(10)	(10)	(10)
ST loans & investments	0	0	0	0	0
LT loans & investments	1,201	3,665	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	2,303	141	(140)	400	1,206
Cash flow from investments	**1,995**	**(968)**	**(13,150)**	**(610)**	**196**
Debt financing	94	(3,598)	13,298	846	(3,124)
Capital increase	0	0	0	0	0
Dividends paid	165	(203)	0	0	0
Warrants & other surplus	(1,278)	(4,870)	0	0	0
Cash flow from financing	**(1,019)**	**(8,671)**	**13,298**	**846**	**(3,124)**
Free cash flow	**(813)**	**5,490**	**(13,330)**	**(1,236)**	**1,928**

We believe BA is a reopening play…

…though near-term catalysts are negative with the third virus wave

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	na	na	na	na	112.3
Normalized PE - at target price (x)	na	na	na	na	128.5
PE (x)	70.6	na	na	na	112.3
PE - at target price (x)	80.8	na	na	na	128.5
EV/EBITDA (x)	na	na	na	na	26.9
EV/EBITDA - at target price (x)	na	na	na	na	28.9
P/BV (x)	0.8	1.3	1.6	1.9	1.9
P/BV - at target price (x)	0.9	1.4	1.8	2.2	2.1
P/CFO (x)	35.6	9.9	(75.1)	(105.0)	8.5
Price/sales (x)	1.0	3.2	11.7	4.2	1.4
Dividend yield (%)	0.8	0.0	0.0	0.0	0.0
FCF Yield (%)	(3.3)	22.2	(53.8)	(5.0)	7.8
(Bt)					
Normalized EPS	(0.8)	(1.8)	(1.7)	(1.4)	0.1
EPS	0.2	(2.5)	(1.7)	(1.4)	0.1
DPS	0.1	0.0	0.0	0.0	0.0
BV/share	14.3	9.3	7.6	6.2	6.3
CFO/share	0.3	1.2	(0.2)	(0.1)	1.4
FCF/share	(0.4)	2.6	(6.3)	(0.6)	0.9

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(4.7)	(68.0)	(72.5)	180.3	195.0
Net profit (%)	40.7	na	na	na	na
EPS (%)	40.7	na	na	na	na
Normalized profit (%)	na	na	na	na	na
Normalized EPS (%)	na	na	na	na	na
Dividend payout ratio (%)	59.9	0.0	0.0	0.0	0.0
Operating performance					
Gross margin (%)	6.8	(41.6)	(161.0)	(37.0)	8.3
Operating margin (%)	(12.4)	(72.7)	(231.0)	(67.0)	(5.7)
EBITDA margin (%)	(6.4)	(35.6)	(108.3)	(21.5)	10.2
Net margin (%)	(10.8)	(57.9)	(197.7)	(56.1)	(1.5)
D/E (incl. minor) (x)	0.6	0.7	1.7	2.1	1.9
Net D/E (incl. minor) (x)	0.3	0.6	1.6	2.0	1.7
Interest coverage - EBIT (x)	na	na	na	na	na
Interest coverage - EBITDA (x)	na	na	na	na	1.5
ROA - using norm profit (%)	na	na	na	na	0.4
ROE - using norm profit (%)	na	na	na	na	1.7
DuPont					
ROE - using after tax profit (%)	na	na	na	na	na
- asset turnover (x)	0.4	0.1	0.0	0.1	0.3
- operating margin (%)	na	na	na	na	na
- leverage (x)	2.0	2.3	3.1	4.1	4.4
- interest burden (%)	495.4	134.7	137.0	159.7	(27.4)
- tax burden (%)	na	na	na	na	na
WACC (%)	7.1	7.1	7.1	7.1	7.1
ROIC (%)	(7.3)	(14.5)	(12.5)	(7.7)	(2.1)
NOPAT (Bt m)	(2,960)	(5,576)	(3,903)	(3,172)	(802)
invested capital (Bt m)	38,320	31,276	41,115	39,066	36,163

Sources: Company data, Thanachart estimates

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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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