

SELL (Unchanged)

Change in Numbers

TP: Bt 2.30

Downside : 22.3%

(From: Bt 2.00)

29 JUNE 2022

Small Cap Research

Asia Aviation Pcl (AAV TB)

Facing headwinds

Despite the strong passenger recovery outlook, AAV is facing many headwinds. We cut our earnings estimates and delay its profit-making year to 2024F. Despite the rollover effect of our base year to 2023F, our TP only stands at Bt2.3. We reaffirm our SELL call on AAV.

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The headwinds

This note is part of our Thailand Air Transportation Sector report, *The opening sky*, dated 29 June 2022. Despite the strong passenger recovery outlook, we see many headwinds for AAV's business turnaround. **First**, jet-fuel prices (34% of its total costs in 2019) are now at around a record high of USD167/bbl (vs. USD110 in 1Q22 and USD78 in 2019). **Second**, AAV's ramp and airport operation expenses fell from 12% of its total costs in 2019 to only 1% in 2021 due to its flight suspension during the COVID-19 crisis and Airports of Thailand's (AOT TB, BUY, Bt72) assistance measures, but these measures will likely end in March 2023. **Third**, global airlines' swift capacity beef-up to 85% of the 2019 level now and Thai airlines, including AAV, ramping up capacity will likely bring back fierce competition. **Finally**, we expect AAV's interest expenses to rise on the back of the higher interest rate trend and its 100%-owned Thai AirAsia's speculative-grade bond rating of BB (from TRIS Rating).

Profit making delayed to 2024F

We cut our earnings for AAV in 2022-24F (Exhibit 1) to reflect the above-mentioned headwinds and we now expect its profit-making year to be in 2024F rather than 2023F on our passenger volume assumptions (RPKs) at 47/66/82% of the 2019 level and jet-fuel prices of USD135/118/104/bbl in 2022-24F. We assume AAV is able to partly pass on rising costs as reflected in our revenue per available seat kilometer (RASK) assumptions of Bt1.6-1.8 in 2022-24F vs. Bt1.3 in 1Q22. Note that AAV made a loss in 2019 when its RASK was at Bt1.5 and the jet-fuel price was at USD78/bbl. With the base-year rollover in our model to 2023F, our fully-diluted DCF-based 12-month TP is at Bt2.3 (from Bt2.0).

Expensive valuation, in our view

AAV's share price has jumped by 27% from its low this year on the strong tourism turnaround outlook after the country's reopening. But we reaffirm our SELL call on AAV given the delay in its profit-making year to 2024F and expensive valuation at a PE multiple of 51x in 2024F vs. its seven-year 2012-17 pre-COVID average PE of 21x. Its balance sheet is still weak, causing Thai AirAsia's new two-year bond to offer a high 6.8% interest rate.

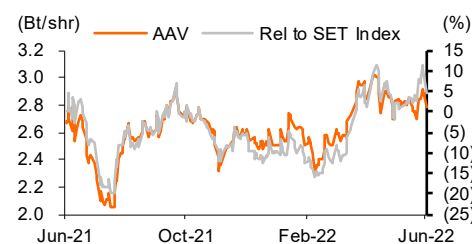
We prefer airports to airlines

In the sector, we see Airports of Thailand (AOT TB, Bt72, BUY) as the most direct and highest operating-leverage play on the Thai tourism recovery with an earnings turnaround in FY23F and record-high profits in FY24F, driven not only by a passenger recovery but also the implementation of a 2.4x higher minimum guarantee in its new duty-free concession in April 2023 vs. the old concession in FY19 (see more details in our AOT report, *Fast recovery*, dated 29 June 2022).

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	3,828	21,778	32,422	38,669
Net profit	(6,647)	(6,423)	(557)	752
Consensus NP	—	(4,744)	(34)	1,303
Diff frm cons (%)	—	na	na	(42.3)
Norm profit	(4,785)	(6,423)	(557)	752
Prev. Norm profit	—	(6,034)	805	1,710
Chg frm prev (%)	—	na	na	(56.0)
Norm EPS (Bt)	(0.59)	(0.50)	(0.04)	0.06
Norm EPS grw (%)	na	na	na	na
Norm PE (x)	na	na	na	50.6
EV/EBITDA (x)	na	4.7	6.5	5.1
P/BV (x)	1.6	2.8	2.9	2.8
Div yield (%)	0.0	0.0	0.0	0.0
ROE (%)	na	na	na	5.7
Net D/E (%)	13.7	28.4	34.0	24.9

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 28-Jun-22 (Bt)	2.96
Market Cap (US\$ m)	989.6
Listed Shares (m shares)	11,735.7
Free Float (%)	34.8
Avg Daily Turnover (US\$ m)	2.0
12M Price H/L (Bt)	3.02/2.05
Sector	Transportation
Major Shareholder	Mr. Tassapon Bijleveld 40.5%

Sources: Bloomberg, Company data, Thanachart estimates

Maintaining our SELL call

We cut AAV's earnings and maintain our SELL call given our concerns over...

We revise down our earnings estimates for Asia Aviation Pcl (AAV) to a Bt6.4bn loss in FY22F (from a Bt6bn loss previously and vs. a Bt2.5bn loss in 1Q22), a Bt0.6bn loss in FY23F (from a Bt0.8bn profit) and by 56% in 2024F. However, with the rollover of the base year in our model to 2023F, our fully-diluted DCF-based 12-month TP is raised to Bt2.3/share from Bt2.0 previously.

Ex 1: Key Assumption Changes

	2020	2021	2022F	2023F	2024F
Revenues per ASK (Bt)					
New	1.3	1.3	1.6	1.8	1.8
Old			1.4	1.6	1.5
Change (%)			14.3	12.5	20.0
Costs per ASK (Bt)					
New	2.3	4.5	2.3	1.9	1.7
Old			2.1	1.5	1.4
Change (%)			9.5	26.7	21.4
Jet fuel price (Bt/bbl)					
New	46	75	135	118	104
Old			80	80	80
Change (%)			68.8	47.5	30.0
Normalized earnings (Bt bn)					
New	(4.9)	(4.8)	(6.4)	(0.6)	0.8
Old			(6.0)	0.8	1.7
Change (%)			na	na	(56.0)

Source: Company data, Thanachart estimates

We maintain our SELL rating on shares of AAV given our concerns about:

...rising jet fuel prices...

1) Jet fuel prices rising to a record high of USD168/bbl this month from an average of USD110 in 1Q22, USD75 in 2021, USD46 in 2020, and USD78 in 2019. AAV's jet fuel costs made up 34% of its total costs in the pre-COVID 2019 year. In line with our house view, we raise our jet fuel price assumptions to USD135/118/104 per bbl in 2022-24F.

...rising ramp and airport operation expenses...

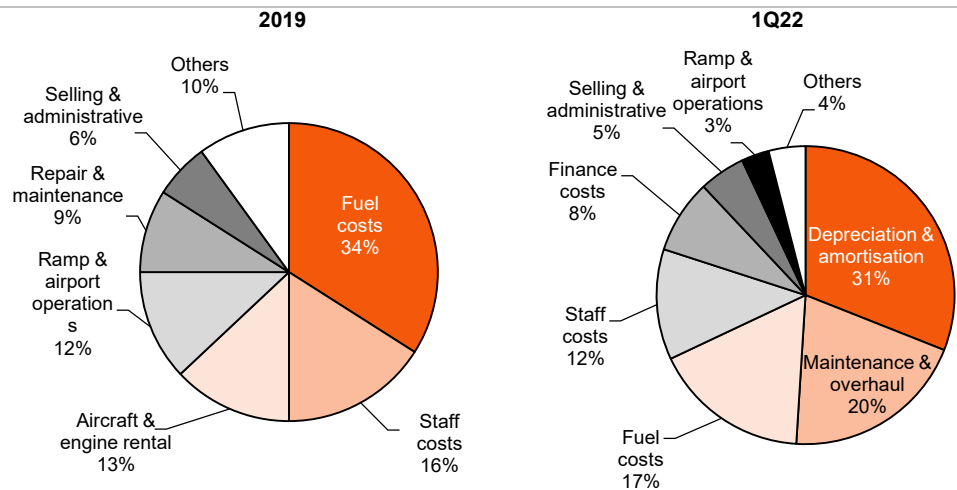
2) Rising ramp and airport operation expenses. These expenses fell from 12% of AAV's total costs in 2019 to just 1% in 2021 due to the suspension of its flights during the COVID crisis and Airports of Thailand's (AOT TB, Bt72., BUY) assistance measures (eg, 50% discounts on landing & parking charges, office and state property rents, terminal and building services charges for airlines that still operated their businesses and no charges for airlines that suspended operations). However, AOT's measures will likely end in March 2023. With our higher jet-fuel price forecasts, we raise our cost per available seat kilometer (CASK) assumptions to Bt2.3/1.9/1.7 for 2022-24F.

Ex 2: Jet Fuel Price



Source: Bloomberg

Ex 3 AAV's Cost Breakdown

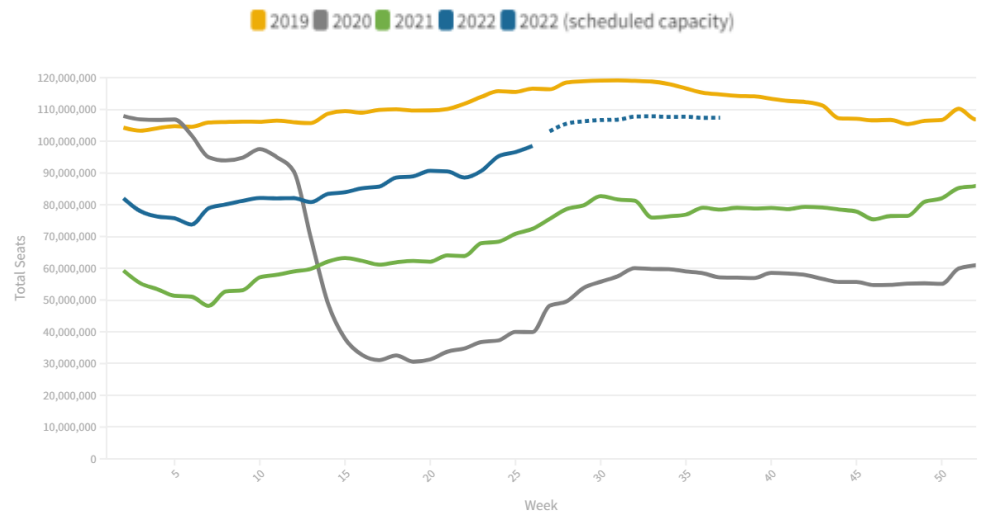


Source: Company data

...more intense competition...

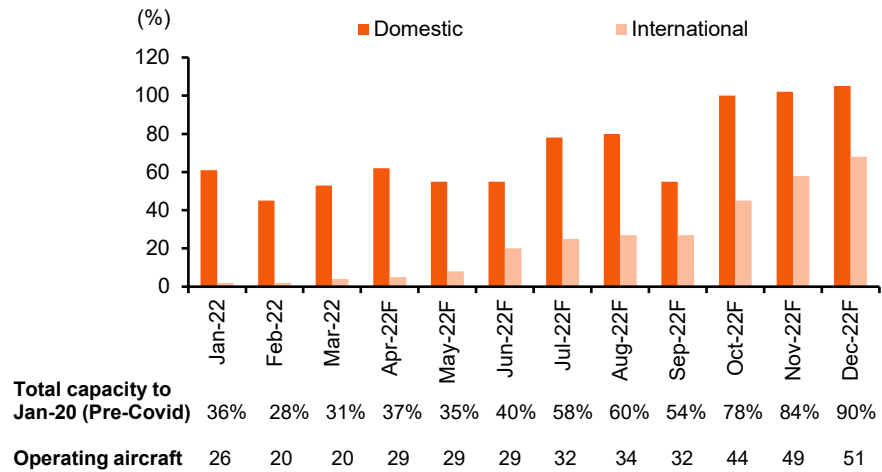
- 3) The return of fierce competition as global airlines have swiftly ramped up capacity to 85% of the 2019 level now. AAV itself is also planning to increase its capacity from 37% of the pre-COVID level this quarter to 57-84% in 3Q-4Q22.

Ex 4: Global Airlines' Total Seats



Source: OAG

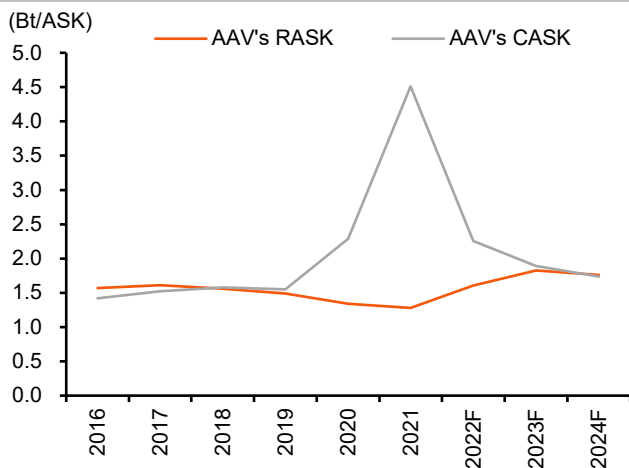
Ex 5: Thai AirAsia's Capacity Deployment Plan



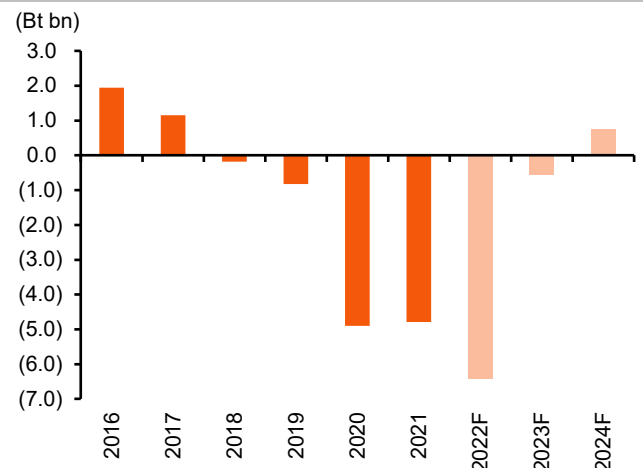
Source: Company data

...a delay in its profit-making year...

- A delay in its profit-making year to 2024F. This is despite our view of AAV being able to partly pass on rising costs to passengers, which is reflected in our higher revenue per available seat kilometer (RASK) assumptions of Bt1.6/1.8/1.8 in 2022-24F vs. Bt1.3 in 1Q22 and Bt1.5 in 2019.

Ex 6: AAV's RASK Vs. CASK

Sources: Company data, Thanachart estimates

Ex 7: AAV's Earnings

Sources: Company data, Thanachart estimates

...and an expensive valuation, in our view

- 5) AAV's valuation is expensive, in our view, trading at a PE multiple of 51x in 2024F vs. its past-7-year 2012-17 pre-COVID average of 21x. Its balance sheet is still weak, causing its 100%-owned Thai AirAsia's new two-year bond to be assigned a speculative-grade bond rating of BB (from TRIS Rating, a Thai rating agency) and therefore needing to offer a high 6.8% interest rate.

Ex 8: 12-month DCF-based TP Calculation Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	6,527	8,142	8,441	8,786	8,904	8,951	9,045	9,132	9,232	9,362	—
Free cash flow	912	2,427	2,580	2,852	2,969	3,013	3,089	3,166	3,247	3,360	42,411
PV of free cash flow	910	2,420	1,960	1,976	1,878	1,738	1,625	1,520	1,368	1,285	16,224
Risk-free rate (%)	2.5										
Market risk premium (%)	8.0										
Beta	1.0										
WACC (%)	9.1										
Terminal growth (%)	2.0										
Enterprise value - add investments	32,904										
Net debt (2022F)	3,823										
Minority interest	—										
Equity value	29,082										
# of shares (m)*	12,850										
Target price/share (Bt)	2.30										

Source: Company, Thanachart estimates

Valuation Comparison

Ex 9: Valuation Comparison With Regional Peers

Company	Code	Country	EPS Growth		PE		P/BV		EV/EBITDA		Div. Yield	
			22F (%)	23F (%)	22F (x)	23F (x)	22F (x)	23F (x)	22F (x)	23F (x)	22F (%)	23F (%)
Air Arabia PJSC	AIRARABI UH	UAE	55.6	0.0	8.8	8.8	1.8	1.7	5.4	5.4	6.9	7.1
EasyJet PLC	EZJ LN	UK	na	na	128.7	11.0	1.2	1.0	4.8	3.4	0.0	1.8
Singapore Airlines	SIA SP	Singapore	na	193.0	64.9	22.2	1.3	1.3	5.9	4.8	0.7	2.3
Eva Airways Corp	2618 TT	Taiwan	126.5	9.4	10.5	9.6	1.8	1.6	4.6	4.1	3.2	3.4
China Southern (China)	600029 CH	China	9.3	na	na	37.8	2.0	2.0	14.8	8.3	0.0	0.5
China Eastern	600115 CH	China	(0.4)	90.9	na	54.0	2.4	2.2	34.6	9.4	0.0	0.5
Air China (China)	601111 CH	China	23.7	na	na	36.7	3.2	2.9	71.8	10.0	0.0	0.4
Asia Aviation	AAV TB*	Thailand	na	na	na	na	2.8	2.9	4.7	6.5	0.0	0.0
Bangkok Airways	BA TB*	Thailand	na	na	na	na	2.3	2.5	na	49.4	0.0	0.0
Average			42.9	73.3	53.2	25.7	2.1	2.0	18.3	11.3	1.2	1.8

Source: Bloomberg

Note: * Thanachart estimates using Normalized EPS

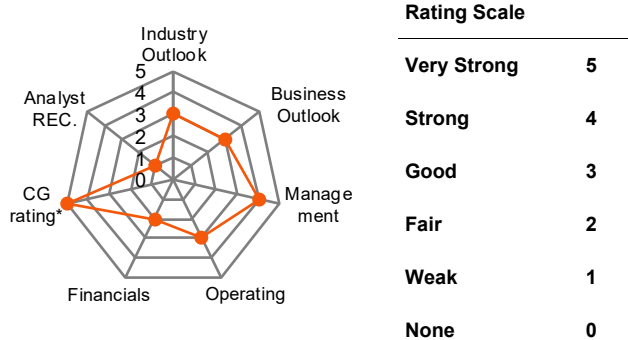
Based on 28 Jun-22 closing prices

COMPANY DESCRIPTION

Asia Aviation (AAV) owns 100% stake in Thai AirAsia (TAA), the leading low-cost carrier based in Thailand. It operated 60 airplanes as of end 1Q22 from four hubs in Thailand: Suvarnabhumi, Don Mueang, Phuket and Chiang Mai airports. Its service areas are in Southeast Asia with less-than-four-hour flights from its hubs.

Source: Thanachart

COMPANY RATING



Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- It is one of the lowest-cost carriers in Asia.
- Its revenue generating model is built on an expanding network and the sale of ancillary items.
- Being a member of the AirAsia group allows it to benefit from bargaining power, cross-selling opportunities and scale.

O — Opportunity

- Asia is one of the fastest-growing low-cost airline markets.
- Thailand is one of the top destinations for tourists.
- Its service areas cover some parts of China and India, the No.1 and No.2 countries by population.

W — Weakness

- Most aircraft are leased, causing high operating expenses.
- Service areas are limited with a maximum four-hour flight.
- Its financial status is weak due to the prolong COVID-19 crisis.

T — Threat

- Highly volatile jet fuel prices pose a major risk.
- Competition in the aviation industry is fierce while demand for travel is also dependent on the global economic situation.
- Other transportation options such as high-speed trains are being developed.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	2.88	2.30	-20%
Norm profit 22F (Bt m)	(4,744)	(6,423)	na
Norm profit 23F (Bt m)	(34)	(557)	na
Consensus REC	BUY: 3	HOLD: 1	SELL: 5

HOW ARE WE DIFFERENT FROM THE STREET?

- Our loss estimates in 2022-23F are higher than the Bloomberg consensus numbers, likely because of our concern on intense competition, which would make AAV unable to fully pass on rising costs.
- Our TP is lower than the Street's following our lower earnings forecasts.

Sources: Bloomberg consensus, Thanachart forecasts

RISKS TO OUR INVESTMENT CASE

- The easing of the COVID-19 situation represents a potential upside risk as it may have a significantly positive impact on Thailand's tourism recovery.
- Fuel expenses are one of Thai AirAsia's major costs. Lower-than-expected jet fuel price would be an upside risk to our earnings forecasts.
- Higher-than-expected RASK due to mild competition would be another upside risk to our earnings forecasts.

Source: Thanachart

INCOME STATEMENT

We delay AAV's profit-making year to 2024F...

...given airlines' fast capacity ramp-ups making us concerned about fierce competition returning

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	13,634	3,828	21,778	32,422	38,669
Cost of sales	20,484	11,223	25,785	28,842	33,021
Gross profit	(6,850)	(7,395)	(4,007)	3,581	5,648
% gross margin	-50.2%	-193.2%	-18.4%	11.0%	14.6%
Selling & administration expenses	1,665	1,236	2,396	2,432	2,900
Operating profit	(8,516)	(8,630)	(6,403)	1,149	2,747
% operating margin	-62.5%	-225.4%	-29.4%	3.5%	7.1%
Depreciation & amortization	6,355	5,434	15,276	5,378	5,394
EBITDA	(2,161)	(3,196)	8,873	6,527	8,142
% EBITDA margin	-15.8%	-83.5%	40.7%	20.1%	21.1%
Non-operating income	750	339	442	425	420
Non-operating expenses	0	(43)	0	0	0
Interest expense	(1,800)	(1,899)	(2,304)	(2,270)	(2,227)
Pre-tax profit	(9,566)	(10,234)	(8,265)	(696)	940
Income tax	(660)	(1,741)	(1,653)	(139)	188
After-tax profit	(8,906)	(8,493)	(6,612)	(557)	752
% net margin	-65.3%	-221.8%	-30.4%	-1.7%	1.9%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	4,008	3,708	189	0	0
Extraordinary items	134	(1,862)	0	0	0
NET PROFIT	(4,764)	(6,647)	(6,423)	(557)	752
Normalized profit	(4,898)	(4,785)	(6,423)	(557)	752
EPS (Bt)	(0.6)	(0.8)	(0.5)	(0.0)	0.1
Normalized EPS (Bt)	(0.6)	(0.6)	(0.5)	(0.0)	0.1

BALANCE SHEET

We expect a successful capital call to allow AAV to survive the COVID-19 crisis

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	2,760	7,673	5,459	4,813	5,047
Cash & cash equivalent	1,110	5,360	3,000	2,000	2,000
Account receivables	284	563	656	977	1,165
Inventories	240	230	283	316	362
Others	1,125	1,520	1,520	1,520	1,520
Investments & loans	0	0	0	0	0
Net fixed assets	6,230	5,277	5,287	5,209	5,115
Other assets	58,987	58,258	58,299	58,299	58,299
Total assets	67,978	71,208	69,045	68,321	68,461
LIABILITIES:					
Current liabilities:	17,823	17,560	17,275	17,400	17,444
Account payables	757	989	2,273	2,542	2,911
Bank overdraft & ST loans	1,000	829	738	691	585
Current LT debt	2,286	2,742	1,521	1,424	1,205
Others current liabilities	13,780	13,000	12,743	12,743	12,744
Total LT debt	4,672	4,093	4,563	4,272	3,615
Others LT liabilities	28,122	32,726	33,742	33,742	33,742
Total liabilities	50,617	54,380	55,580	55,414	54,801
Minority interest	3,094	(3,372)	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	485	988	1,285	1,285	1,285
Share premium	2,600	10,897	15,800	15,800	15,800
Warrants	0	0	0	0	0
Surplus	(204)	2,141	(3,372)	(3,372)	(3,372)
Retained earnings	11,386	6,175	(248)	(805)	(53)
Shareholders' equity	14,266	20,201	13,465	12,908	13,660
Liabilities & equity	67,978	71,208	69,045	68,321	68,461

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	(9,566)	(10,234)	(8,265)	(696)	940
Tax paid	660	1,740	1,654	139	(188)
Depreciation & amortization	6,355	5,434	15,276	5,378	5,394
Chg In working capital	209	(36)	1,138	(85)	134
Chg In other CA & CL / minorities	5,076	(4,740)	3,304	0	0
Cash flow from operations	2,734	(7,835)	13,106	4,736	6,282
Capex	12,292	(4,481)	(5,300)	(5,300)	(5,300)
Right of use	(28,527)	243	(10,000)	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	13	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	13,512	7,688	989	0	0
Cash flow from investments	(2,710)	3,450	(14,311)	(5,300)	(5,300)
Debt financing	(1,983)	(3,948)	(842)	(436)	(982)
Capital increase	0	8,800	5,200	0	0
Dividends paid	0	0	0	0	0
Warrants & other surplus	(914)	3,782	(5,513)	0	0
Cash flow from financing	(2,896)	8,634	(1,155)	(436)	(982)
Free cash flow	15,026	(12,316)	7,806	(564)	982

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	na	na	na	na	50.6
Normalized PE - at target price (x)	na	na	na	na	39.3
PE (x)	na	na	na	na	50.6
PE - at target price (x)	na	na	na	na	39.3
EV/EBITDA (x)	na	na	4.7	6.5	5.1
EV/EBITDA - at target price (x)	na	na	3.7	5.2	4.0
P/BV (x)	1.7	1.6	2.8	2.9	2.8
P/BV - at target price (x)	1.3	1.3	2.2	2.3	2.2
P/CFO (x)	8.6	(3.1)	2.9	8.0	6.1
Price/sales (x)	2.5	9.1	1.6	1.1	0.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF Yield (%)	63.8	(51.4)	20.6	(1.5)	2.6
(Bt)					
Normalized EPS	(0.6)	(0.6)	(0.5)	(0.0)	0.1
EPS	(0.6)	(0.8)	(0.5)	(0.0)	0.1
DPS	0.0	0.0	0.0	0.0	0.0
BV/share	1.8	1.8	1.0	1.0	1.1
CFO/share	0.3	(1.0)	1.0	0.4	0.5
FCF/share	1.9	(1.5)	0.6	(0.0)	0.1

Sources: Company data, Thanachart estimates

Valuation now looks expensive to us at PE of 51x in 2024F

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(66.1)	(71.9)	468.8	48.9	19.3
Net profit (%)	na	na	na	na	na
EPS (%)	na	na	na	na	na
Normalized profit (%)	na	na	na	na	na
Normalized EPS (%)	na	na	na	na	na
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Operating performance					
Gross margin (%)	(50.2)	(193.2)	(18.4)	11.0	14.6
Operating margin (%)	(62.5)	(225.4)	(29.4)	3.5	7.1
EBITDA margin (%)	(15.8)	(83.5)	40.7	20.1	21.1
Net margin (%)	(65.3)	(221.8)	(30.4)	(1.7)	1.9
D/E (incl. minor) (x)	0.5	0.5	0.5	0.5	0.4
Net D/E (incl. minor) (x)	0.4	0.1	0.3	0.3	0.2
Interest coverage - EBIT (x)	na	na	na	0.5	1.2
Interest coverage - EBITDA (x)	na	na	3.9	2.9	3.7
ROA - using norm profit (%)	na	na	na	na	1.1
ROE - using norm profit (%)	na	na	na	na	5.7
DuPont					
ROE - using after tax profit (%)	na	na	na	na	5.7
- asset turnover (x)	0.2	0.1	0.3	0.5	0.6
- operating margin (%)	na	na	na	na	8.2
- leverage (x)	3.8	4.0	4.2	5.2	5.1
- interest burden (%)	123.2	122.8	138.7	(44.2)	29.7
- tax burden (%)	na	na	na	na	80.0
WACC (%)	9.1	9.1	9.1	9.1	9.1
ROIC (%)	(32.2)	(40.9)	(22.8)	5.3	12.7
NOPAT (Bt m)	(8,516)	(8,630)	(5,122)	919	2,198
invested capital (Bt m)	21,114	22,506	17,287	17,294	17,065

Sources: Company data, Thanachart estimates

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