Thanachart Securities

Thailand Air Transportation

The opening sky

Sector Valuation			Current	Target	Market	Norm EPS grw		— Norm PE —		— P/BV —		— Div. yield —	
	BBG		price	price	Cap	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F
Company	Code	Rec.	(Bt)	(Bt)	(US$ m)	(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
Asia Aviation	AAV TB	SELL	2.96	2.30	990	na	na	na	na	2.8	2.9	0.0	0.0
Airports of Thailand	AOT TB	BUY	72.00	85.00	29,302	na	na	na	182.7	10.3	9.9	0.0	0.3
Bangkok Airways	BA TB	BUY	11.10	13.50	664	na	na	na	na	2.3	2.5	0.0	0.0

Source: Thanachart estimates, Based on 28 June 2022 closing prices

We have an Overweight rating on the air transportation sector given the government's full country reopening policy and the industry's strong turnaround momentum. AOT is our top sector pick with BA also a BUY for what we regard as its attractive valuation.

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A laggard play on the tourism turnaround

Despite the Omicron wave and Russia-Ukraine war, international passenger volume (RPKs) in the US and Europe recovered to 75% and 74% of their 2019 levels in April 2022, according to the International Air Transport Association (IATA) but, given remaining travel curbs, RPKs in Asia rose to only 22% of the 2019 level. In Thailand, Airports of Thailand (AOT TB, Bt72.0, BUY) reported its international passengers at 13/22/28% of the FY19 level in April-June 2022. We expect them to reach 14% in FY22F (ending September 2022) and 55/94% in FY23-24F.

Airlines with headwinds

Global airline capacity is now back at 85% of 2019's level, according to the Official Aviation Guide of the Airways (OAG). Thai AirAsia, the largest low-cost airline in Thailand, plans to increase its capacity from 37% of the pre-COVID level in 2Q22 to 57-84% in 3Q-4Q22. The swift capacity ramp-up globally could bring back intense competition among airline operators during a period of high cost pressures. The jet fuel price (30-35% of total costs in 2019) is trading close to a record-high of US$168/bbl. Airport operation expenses (10-15% of total costs) look set to increase next year after AOT's assistance measures likely come to an end in March 2023. Rising interest rates will also increase interest expenses. Thai airlines made losses even before the COVID-19 crisis in 2019 because of fierce competition and the US$78/bbl jet fuel price.

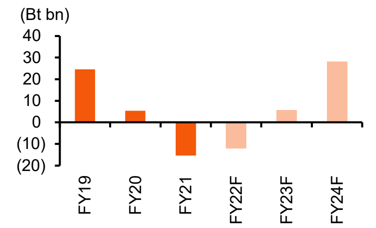
AOT is the best play in our view

AOT is our top sector pick (see our AOT report, *Fast recovery*, dated 29 June 2022) as it is the most direct and highest operating-leverage play on Thailand's tourism turnaround with a near-monopoly business, low gearing, and an earnings turnaround story in FY23F to a record-high in FY24F, driven by not only a passenger recovery but also a jump in concession revenue from the collection of a 2.4x higher minimum guarantee in its new duty-free concession at Suvarnabhumi Airport from April 2023F vs. the old concession in FY19.

BA is also a BUY

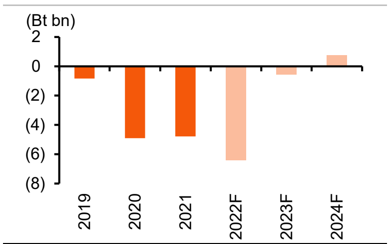
We don't like the airline industry and we maintain our SELL rating on Asia Aviation (AAV TB, Bt2.96, SELL) (see our AAV report, *Facing headwinds*, dated 29 June 2022). However, we have a BUY call on Bangkok Airways (BA TB, BUY, Bt11.1) (see our BA report, *Inexpensive*, dated 29 June 2022) given its cheap valuation, business diversification toward the airport business, and plan to strengthen its balance sheet by getting future cash flows from leasing out its Samui Airport to a REIT.

AOT's Earnings



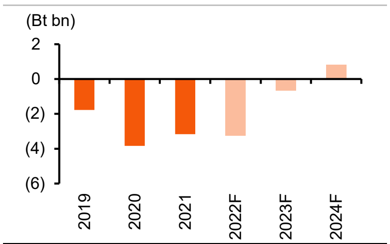
Sources: Company data, Thanachart estimates

AAV's Earnings



Sources: Company data, Thanachart estimates

BA's Earnings



Sources: Company data, Thanachart estimates

A laggard play on the tourism turnaround

Asia has lagged the world in its tourism recovery but it is catching up

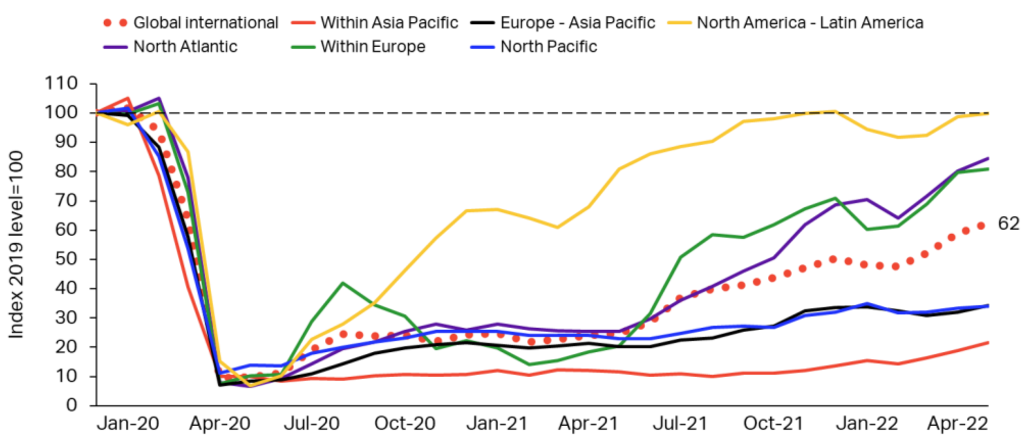
Asian countries, including Thailand, have lagged the rest of the world, especially the Americas and Europe, in their tourism recovery but they are catching up. According to the International Air Transport Association (IATA), industry-wide international passenger volume (RPKs) recovered to 57% of the 2019 level in April 2022. RPKs for international routes in the US, Europe, and Latin America showed the highest rebound at 75%, 74%, and 70% of their 2019 levels while RPKs for international routes in Asia saw the slowest recovery at 22%. This was because of travel restrictions remaining in place in many Asian countries, especially China. However, the continued easing of travel curbs in Asia will likely lead its RPKs to recover quickly.

Ex 1: Air Passenger Market In April 2022

	April 2022 (% chg. Vs the same month in 2019)			
	Total market		International	
	RPK	ASK	RPK	ASK
Total	**(37.2)**	**(32.9)**	**(43.4)**	**(38.6)**
Africa	(44.7)	(40.0)	(47.1)	(42.6)
Asia-Pacific	(68.1)	(61.0)	(78.4)	(73.7)
Europe	(24.5)	(19.2)	(25.8)	(20.0)
Latin America	(15.9)	(14.6)	(30.1)	(29.8)
Middle East	(34.4)	(26.0)	(35.0)	(26.8)
North America	(9.7)	(10.8)	(24.7)	(21.3)

Source: IATA

Ex 2: International Air Connectivity Index

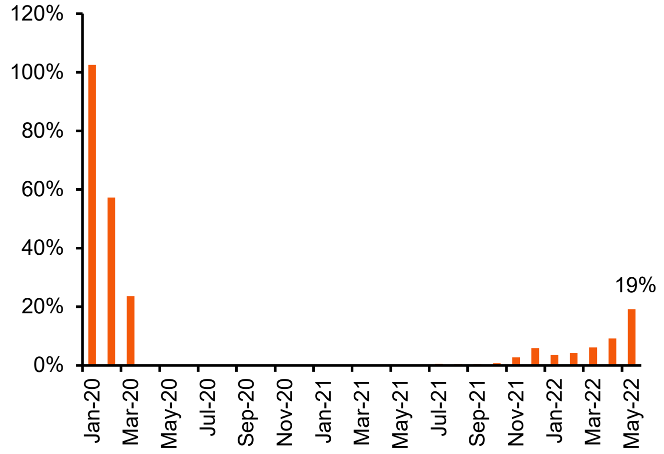


Sources: IATA Connectivity Index Using Data From OAG

Thailand's tourist arrivals recovered to 19% of the 2019 level in May 2022…

In Thailand, the government started to ease COVID-19 restrictions from October 2021 but progress slowed down in 1Q22 because of the Omicron wave. However, since new COVID-19 cases began to subside in April this year, the government relaxed more entry requirements, Thailand's tourist arrivals recovered strongly to 9% of the 2019 level in April 2022 and 19% in May 2022, up from 5% in 1Q22 and 1% in 2021. This is despite China still imposing an international travel ban on its citizens. The top tourist arrival countries in May were India, Malaysia and Singapore while Chinese tourists, who made up 28% of Thailand's tourist arrivals in 2019, made up only 3% of the total.

Ex 3: Thailand's Tourist Arrivals As % Of The 2019 Level



Source: TAT

Ex 4: Thailand's Top Tourist Arrival Countries

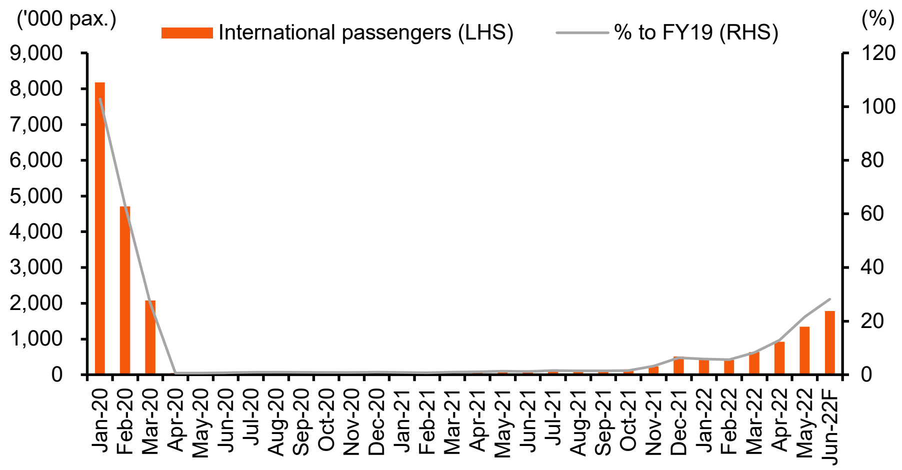
	2019		May-22
China	28%	India	15%
Malaysia	11%	Malaysia	11%
India	5%	Singapore	7%
S Korea	5%	US	5%
Laos	5%	UK	5%

Source: TAT

…and AOT's international passenger recovered to 28% in June 2022

Airports of Thailand Pcl's (AOT TB, Bt72.0, BUY) international passengers (both Thai and foreign passengers who travel in and out of Thailand) also recovered strongly to 13% of the FY19 level (AOT's fiscal year ends in September) in April 2022, 22% in May and 28% so far this month from 5% in 1HFY22 and 1% in FY21. We expect the numbers to reach 14% in FY22F and 55/94% in FY23-24F.

Ex 5: AOT's Monthly International Passengers



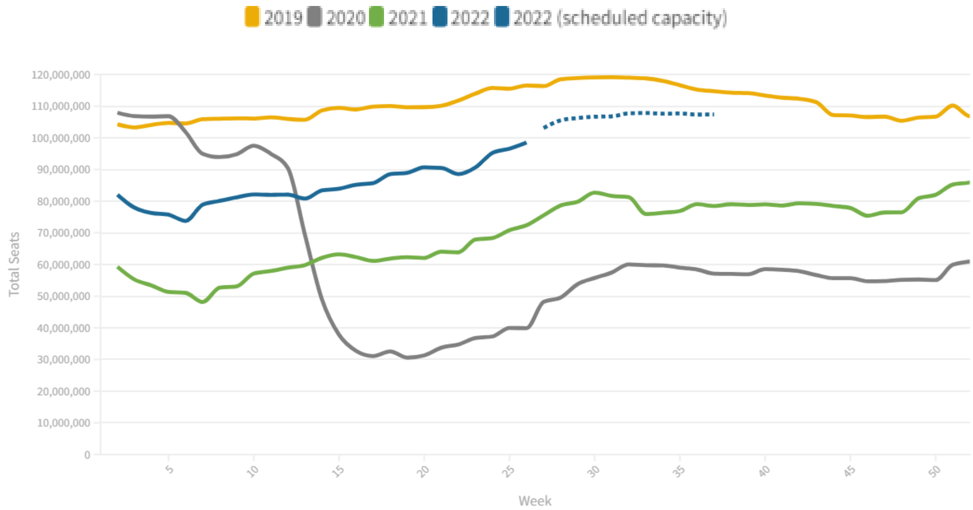
Source: Company data

Airlines with headwinds

Airlines are also ramping up their capacity quickly

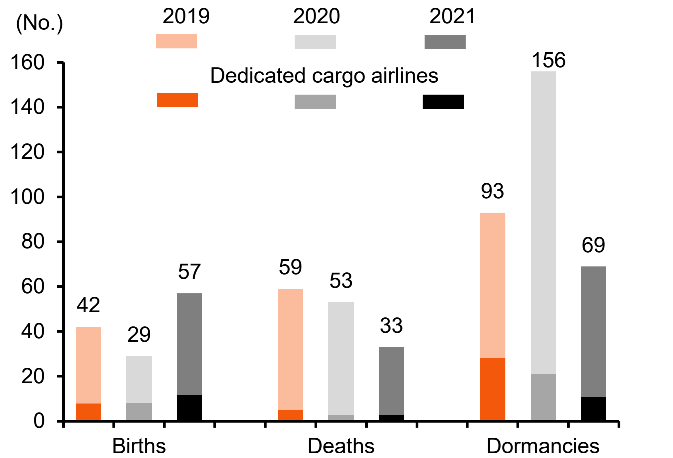
Global airlines are also ramping up their capacity. According to the Official Aviation Guide of the Airways (OAG), total global seat capacity is now at 85% of the 2019 level. We believe one of the reasons for their swift capacity ramp-up is because more new airlines commenced operations in 2021, but fewer airlines were closed or gone dormant versus 2019 on the expectation of an airline industry recovery. Aircraft deliveries to airlines, which fell sharply in 2020, also started to recover in 2021.

Ex 6: Total Global Airline Seats



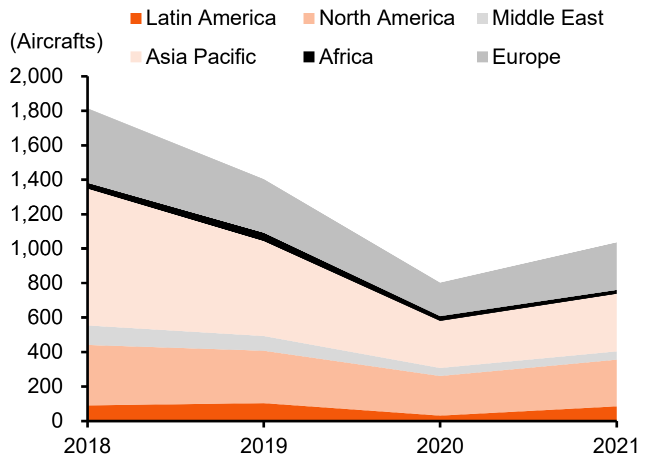
Source: OAG

Ex 7: Number Of Airline Births, Deaths And Dormancies



Source: IATA

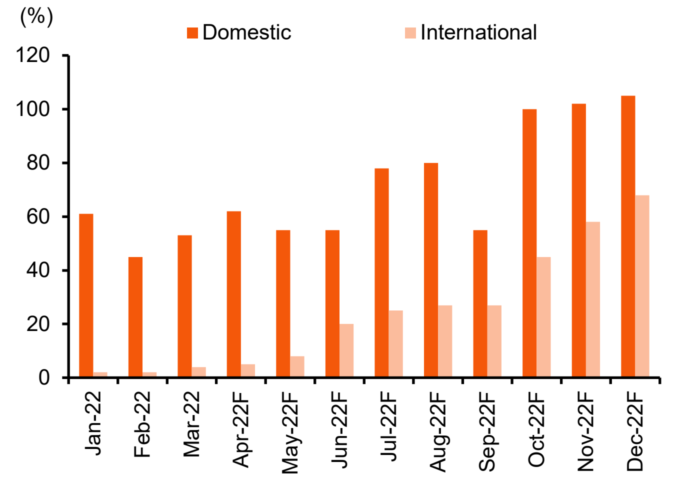
Ex 8: Aircraft Deliveries In Each Region



Source: IATA

In Thailand, Thai AirAsia, the largest low-cost airline, is also planning to increase its capacity from 37% of the pre-COVID level this quarter to 57-84% in 3Q-4Q22.

Ex 9: Thai AirAsia's Capacity Deployment Plan



Source: AAV

Ex 10: Major Thai Airlines' Fleets

Airplanes	2019	2022F
Thai Airways	83	41
Bangkok Airways	40	30
Thai AirAsia	63	53
Nok Air	24	23
Thai Smile	20	20
Thai Lion Air	34	16
Thai Vietjet Air	11	20
Total	**275**	**203**
Low-cost airlines' fleet	**152**	**132**

Source: AAV

We fear a return to fierce competition amid high cost pressures

Airlines' rapid capacity ramp-ups lead us to be concerned about a return to fierce competition amid high cost pressures, especially from:

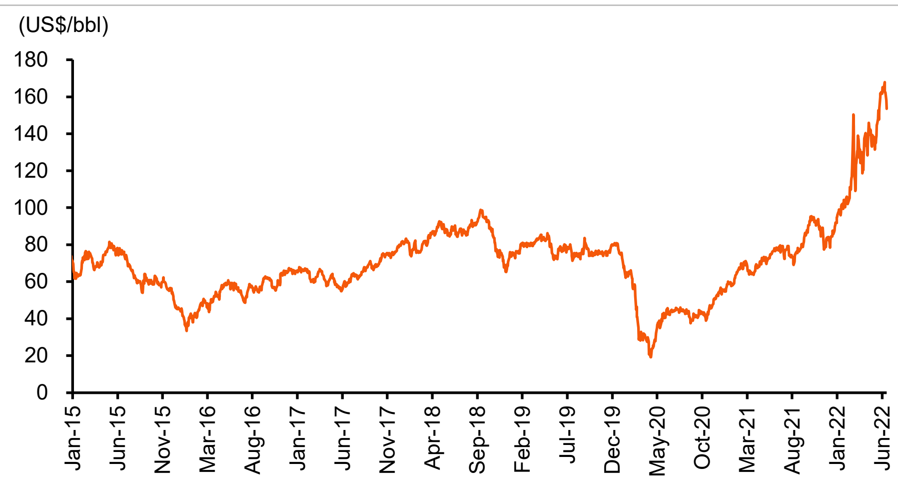
1) Rising jet fuel prices. Fuel costs made up around 30-35% of airlines' total costs in 2019 and the jet fuel price trading close to a record-high of USD168/bbl vs. an average of USD110 in 1Q22 and USD75 in 2021.

2) Rising ramp and airport operation expenses next year after AOT's assistance measures for operators at its airports likely end in March 2023. These measures, for example, include a 50% discount on landing & parking charges, office and state property rents, terminal and building services charges for operators that still operate their businesses and no charges at all for operators that suspended their operations. Ramp and airport operation expenses accounted for 10-15% of airlines' total costs in 2019.

3) Higher interest expenses from the rising interest rate trend.

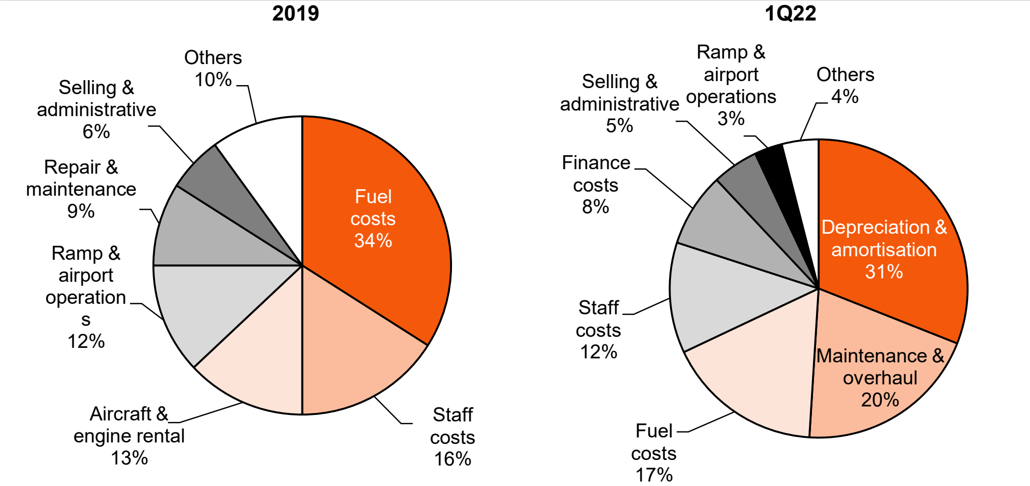
Note that Thai airlines made losses even before the COVID-19 crisis in 2019 because of intense competition and high jet fuel prices of USD78/bbl.

Ex 11: Jet Fuel Price



Source: Bloomberg

Ex 12: Thai AirAsia's Cost Structure In 2019 Vs. 1Q22



Source: AAV

We prefer airports to airlines

We like airports and AOT is our top sector pick

Given our view on the industry described above, AOT is clearly a BUY and it is our top sector pick (see our AOT report, *Fast recovery*, dated 29 June 2022), since:

1) It's the most direct and highest operating-leverage businesses to Thailand's tourism recovery.

2) Its near-monopoly business with over a 90% market share of Thailand's air traffic.

3) Its low gearing of 0.1x in FY22-23F, turning to a net cash position in FY24F, meaning it doesn't have to worry too much about the rising interest rate trend.

4) Its earnings turnaround to a Bt6bn profit next year and a record-high Bt28bn in FY24F and Bt35bn in FY25F, driven by not only a passenger recovery but also a jump in concession revenue from the collection of a 2.4x higher minimum guarantee in the new duty-free concession at Suvarnabhumi Airport from April 2023F compared with the old concession in FY19.

We don't like airlines but we have a BUY on BA

We don't like the airline industry and we maintain our SELL rating on Asia Aviation (AAV TB, Bt2.96, SELL) (see our AAV report, *Facing headwinds*, dated 29 June 2022). However, we have a BUY call on Bangkok Airways (BA TB, Bt11.1, BUY) (see our BA report, *Inexpensive*, also dated 29 June 2022) given:

1) Its cheap valuation in our view as the shares now trade at a 8% discount to our estimate of its investment portfolio value, for which we assume a 15% holding company discount. In other words, investors buying BA at the current price pay for its investment portfolio only and get the airline and airport businesses for free.

2) Its business diversification toward airports.

3) Its plan to strengthen its balance sheet by getting future revenues from leasing out its Samui Airport to a REIT late this year or early next year.

Ex 13: Sector Valuation Comparison

		AAV	AOT	BA	Industry
Rating		**SELL**	**BUY**	**BUY**	**Overweight**
Target price (Bt)	**Thanachart**	**2.30**	**85.00**	**13.50**	
	Consensus	2.88	73.81	12.14	
Consensus rec.	BUY	3.0	17.0	2.0	
	HOLD	1.0	7.0	3.0	
	SELL	5.0	2.0	1.0	
Sales (Bt m)	2021	3,828	7,086	2,717	13,631
	2022F	21,778	14,870	8,541	45,189
	2023F	32,422	42,465	14,814	89,701
	2024F	38,669	74,290	19,724	132,683
Norm profits	2021	(4,785)	(15,319)	(3,171)	(23,275)
(Bt m)	2022F	(6,423)	(12,079)	(3,260)	(21,762)
	2023F	(557)	5,630	(664)	4,409
	2024F	752	28,213	803	29,769
Sales	2021	(71.9)	(77.3)	(64.6)	(74.0)
growth (%)	2022F	468.8	109.9	214.4	231.5
	2023F	48.9	185.6	73.4	98.5
	2024F	19.3	74.9	33.2	47.9
Norm EPS	2021	na	na	na	na
growth (%)	2022F	na	na	na	na
	2023F	na	na	na	na
	2024F	na	401.1	na	575.2
Operating	2021	(225.4)	(242.7)	(182.2)	(225.8)
margin (%)	2022F	(29.4)	(84.7)	(45.4)	(50.6)
	2023F	3.5	24.0	(9.9)	11.0
	2024F	7.1	51.7	(1.7)	30.7
ROE (%)	2021	na	na	na	na
	2022F	na	na	na	na
	2023F	na	5.5	na	5.5
	2024F	5.7	24.9	8.3	13.0
Dividend yield	2021	0.0	0.0	0.0	0.0
(%)	2022F	0.0	0.0	0.0	0.0
	2023F	0.0	0.3	0.0	0.1
	2024F	0.0	1.6	0.0	0.5
P/BV (x)	2021	1.6	9.2	1.8	4.2
	2022F	2.8	10.3	2.3	5.1
	2023F	2.9	9.9	2.5	5.1
	2024F	2.8	8.4	2.3	4.5
Norm PE (x)	2021	na	na	na	na
	2022F	na	na	na	na
	2023F	na	182.7	na	246.5
	2024F	50.6	36.5	29.0	36.5
EV/EBITDA (x)	2021	na	na	na	na
	2022F	4.7	na	na	4.7
	2023F	6.5	44.3	49.4	33.4
	2024F	5.1	19.6	19.8	14.8
Net D/E (x)	2021	0.1	(0.1)	1.5	0.5
	2022F	0.3	0.1	2.0	0.8
	2023F	0.3	0.1	2.0	0.8
	2024F	0.2	(0.1)	1.6	0.6

Sources: Company data; Thanachart estimates

STOCK PERFORMANCE

	Absolute (%)				Rel SET (%)			
	1M	3M	12M	YTD	1M	3M	12M	YTD
SET INDEX	(2.7)	(5.3)	1.0	(3.8)	—	—	—	—
Transportation	2.1	6.5	6.0	9.2	4.8	11.8	5.0	13.0
AAV TB	5.0	13.0	11.3	16.5	7.7	18.3	10.3	20.3
AOT TB	4.3	9.9	16.1	18.0	7.0	15.3	15.2	21.8
BA TB	5.7	9.9	16.2	13.8	8.4	15.2	15.3	17.7

Source: Bloomberg

SECTOR - SWOT ANALYSIS

S — Strength

- Thailand is a very popular destination for tourists.
- AOT is an airport monopoly.
- Given its high income to GDP, the government always attempts to support and boost the tourism industry.

W — Weakness

- AOT and Thai airlines have little revenue diversity, so their earnings mainly depend on passenger numbers.
- AOT's capacity constraints have caused them to miss out on the chance of benefiting fully from Thailand's strong tourism industry.

O — Opportunity

- 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

- Airline competition is fierce and Thai airlines have faced difficulties in competing with the national airlines of oil-producing countries.
- Rising inflation is driving up their costs, especially jet fuel costs.
- Disease outbreaks present a threat to the industry.

REGIONAL COMPARISON

	—EPS growth—		——— PE ———		——— P/BV ———		— EV/EBITDA —		—— Div. Yield ——	
Name	**22F**	**23F**	**22F**	**23F**	**22F**	**23F**	**22F**	**23F**	**22F**	**23F**
	(%)	**(%)**	**(x)**	**(x)**	**(x)**	**(x)**	**(x)**	**(x)**	**(%)**	**(%)**
China	24.6	61.5	10.8	35.1	2.1	1.9	26.2	11.0	1.3	1.9
Germany	90.6	127.7	29.2	12.5	1.1	1.0	15.0	11.6	0.0	1.3
Japan	97.8	na	na	58.5	3.3	2.9	25.6	13.8	0.1	0.6
Mexico	36.3	11.8	15.5	13.9	3.0	2.8	9.9	9.1	3.7	4.2
Singapore	348.6	171.3	57.0	21.0	2.0	1.9	13.1	8.5	1.0	2.6
UAE	55.6	na	8.8	8.8	1.8	1.7	5.4	5.4	6.9	7.1
UK	na	na	128.7	11.0	1.2	1.0	4.8	3.4	0.0	1.8
Taiwan	126.5	9.4	10.5	9.6	1.8	1.6	4.6	4.1	3.2	3.4
Thailand	na	na	na	246.5	5.1	5.1	4.7	33.4	0.0	0.1
Average	**111.4**	**76.3**	**37.2**	**46.3**	**2.4**	**2.2**	**12.1**	**10.3**	**2.3**	**2.6**
AAV TB	na	na	na	na	2.8	2.9	4.7	6.5	0.0	0.0
AOT TB	na	na	na	182.7	10.3	9.9	na	44.3	0.0	0.3
BA TB	na	na	na	na	2.3	2.5	na	49.4	0.0	0.0
Average	**na**	**na**	**na**	**246.5**	**5.1**	**5.1**	**4.7**	**33.4**	**0.0**	**0.1**

Sources: Bloomberg Consensus
Note: * Thanachart estimate – using normalized EPS

SELL (Unchanged) | **TP: Bt 2.30** (From: Bt 2.00)

Change in Numbers | **Downside : 22.3%** | **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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Thanachart Securities

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.

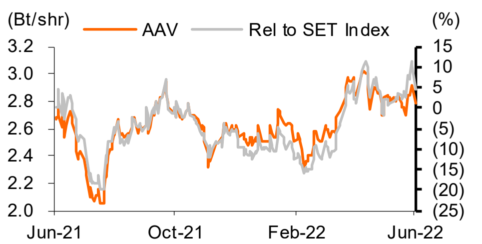
We prefer airports to airlines

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:

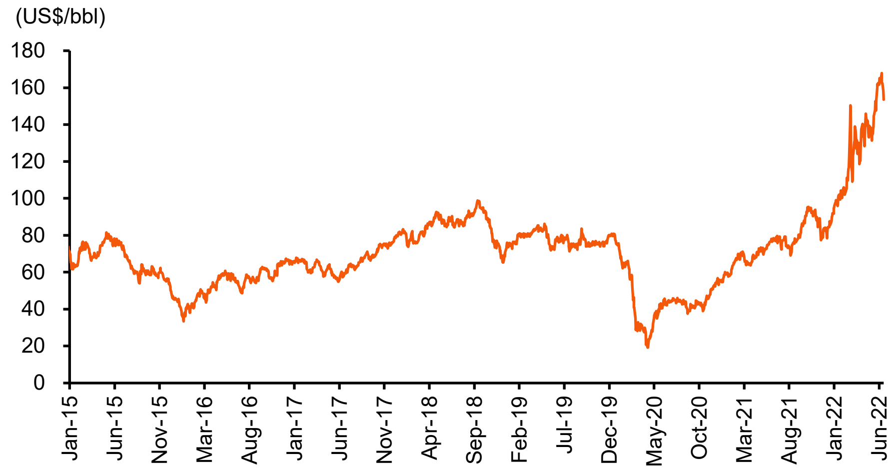
…rising jet fuel prices…

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…

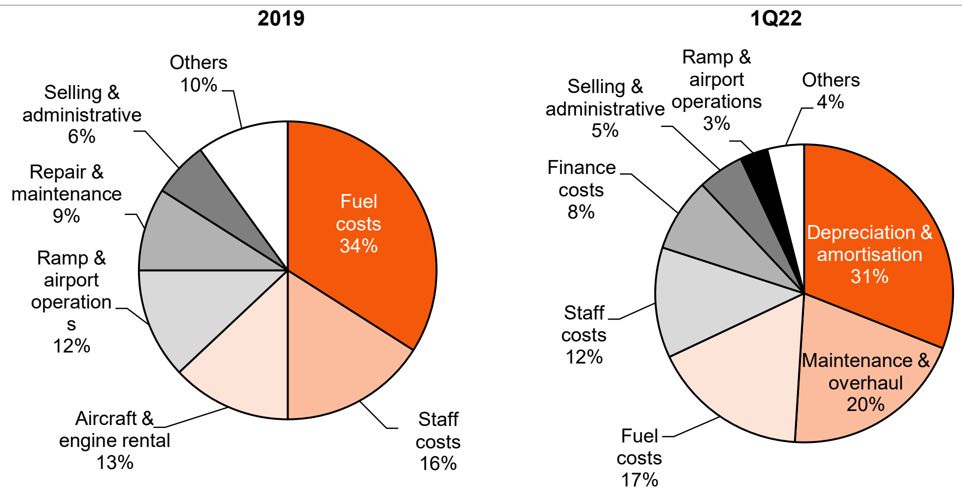
2) Rising ramp and airport operation expenses. These expenses fell from 12% of AAV's total costs in 2019 to just 1% in 2021 due to the suspension of its flights during the COVID crisis and Airports of Thailand's (AOT TB, Bt72,, BUY) assistance measures (eg, 50% discounts on landing & parking charges, 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

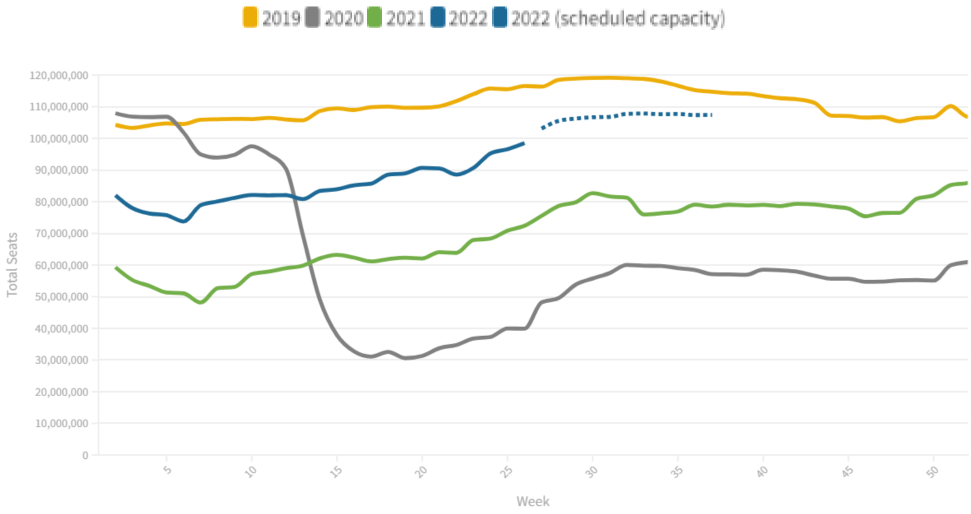


Source: Company data

...more intense competition...

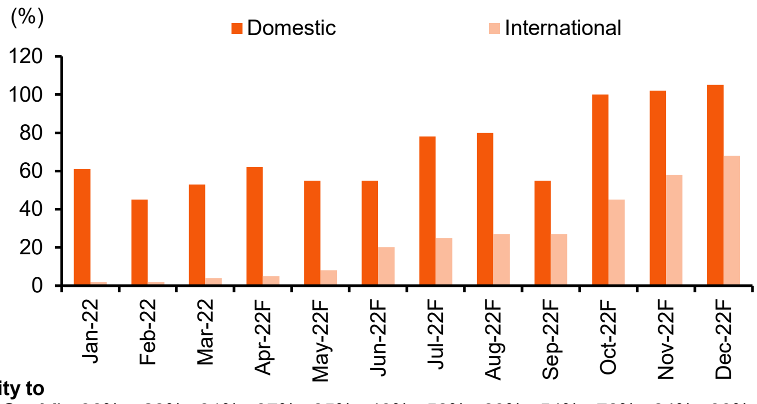
3) The return of fierce competition as global airlines have swiftly ramped up capacity to 85% of the 2019 level now. AAV itself is also planning to increase its capacity from 37% of the pre-COVID level this quarter to 57-84% in 3Q-4Q22.

Ex 4: Global Airlines' Total Seats



Source: OAG

Ex 5: Thai AirAsia's Capacity Deployment Plan



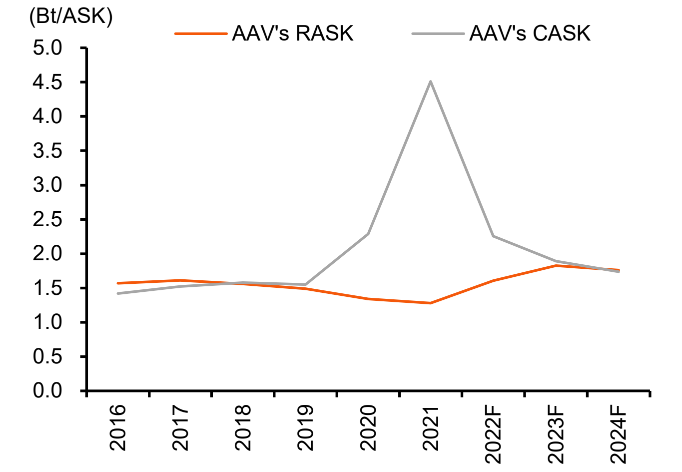
	Jan-22	Feb-22	Mar-22	Apr-22F	May-22F	Jun-22F	Jul-22F	Aug-22F	Sep-22F	Oct-22F	Nov-22F	Dec-22F
Total capacity to Jan-20 (Pre-Covid)	36%	28%	31%	37%	35%	40%	58%	60%	54%	78%	84%	90%
Operating aircraft	26	20	20	29	29	29	32	34	32	44	49	51

Source: Company data

…a delay in its profit-making year…

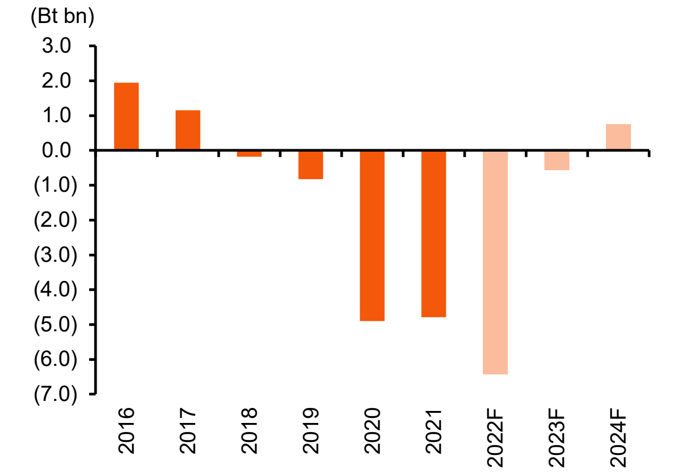
4) A delay in its profit-making year to 2024F. This is despite our view of AAV being able to partly pass on rising costs to passengers, which is reflected in our higher revenue per available seat kilometer (RASK) assumptions of Bt1.6/1.8/1.8 in 2022-24F vs. Bt1.3 in 1Q22 and Bt1.5 in 2019.

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 22F (%)	EPS Growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	EV/EBITDA 22F (x)	EV/EBITDA 23F (x)	Div. Yield 22F (%)	Div. Yield 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**

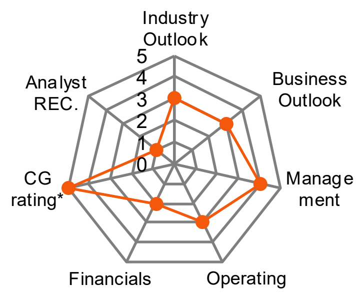
Source: Bloomberg
Note: * Thanachart estimates using Normalized EPS
Based on 28 Jun-22 closing prices

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



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

- 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.

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.

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.

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

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

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

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

INCOME STATEMENT

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

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

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

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 w orking 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

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

BUY (Unchanged)

Change in Numbers

TP: Bt 85.00 (From: Bt 83.00)

Upside : 18.1%

29 JUNE 2022

Airports of Thailand Pcl (AOT TB)

Fast recovery

Given its fast passenger recovery, we expect an end to the exemption of the minimum guarantee collection for the duty-free operator in March 2023. This would not only turn around AOT's earnings in FY23F but also lead to record highs in FY24-25F. We lift our earnings and reaffirm our BUY call on AOT with a new TP of Bt85.

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Thanachart Securities

Fast passenger turnaround

This note is part of our Thailand Air Transportation Sector report, *The opening sky,* dated 29 June 2022. AOT's international passengers amounted to only 5% of its FY19 level in 1H FY22F (AOT's fiscal year ends in September). The figure rose to 13% in April, 22% in May, and 28% so far this month. We expect the number to accelerate further from July after the full country reopening and we estimate a recovery to 14/55/94% of the FY19 level in FY22-24F. Despite that, our numbers are still more conservative than AOT's targets of 15/58/101% in FY22-24. Our assumptions are based on the country's tourist arrivals of 7/26/39m in 2022-24F, vs. 40m in 2019.

Resumption of hefty concession income

Due to the COVID-19 crisis, AOT has exempted the duty-free operator from paying the minimum guarantee until March 2023. Given its strong passenger turnaround, we do not expect AOT to extend the exemption period and for it to start collecting the minimum guarantee of Bt233 per international passenger at Suvarnabhumi Airport from April 2023, a jump from Bt97 in FY19. Thus, despite international passengers not being back at the FY19 level yet, we estimate AOT's earnings at Bt6/28bn in FY23-24F vs. Bt25bn in FY19. Then, when international passengers reach 108% of the FY19 level in FY25F, we expect AOT's earnings to reach Bt35bn, or 143% of the FY19 level.

Boosting our earnings

Due to the faster-than-expected passenger recovery, we raise our earnings for AOT by 37/5% in FY23-24F and DCF-based 12-month TP (FY23F base year) to Bt85 (from Bt83). See Exhibit 1 for our assumption changes. We reaffirm our BUY call on AOT. ***First,*** it is a large-cap, a laggard and the most direct play on the country reopening theme with the full reopening having just taken place recently. ***Second,*** the next catalyst with the resumption of the minimum guarantee collection in April 2023 isn't far away. ***Third,*** as a high operating leverage business and with higher concession income per passenger, AOT's earnings could surpass its FY19 level easily by FY24F and far exceed them in FY25F.

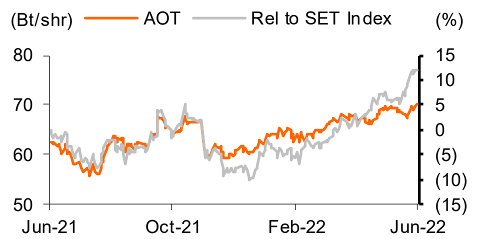
Valuation looks justified to us

As the monopolistic gateway to Thailand, AOT traded at a five-year average PE of 40x in FY15-19 vs. 37/29x in FY24-25F. We believe the high PEs are justified due to its earnings turnaround next year with further growth of 401/24% in FY24-25F and ROE rising to 25/27% in FY24-25F from 6% in FY23F vs. 17% in FY19. The higher profitability is because of the higher return per passenger under the new duty-free concession.

COMPANY VALUATION

Y/E Sep (Bt m)	2021A	2022F	2023F	2024F
Sales	7,086	14,870	42,465	74,290
Net profit	(16,322)	(12,079)	5,630	28,213
Norm profit	(15,319)	(12,079)	5,630	28,213
Consensus NP	—	(9,689)	11,465	27,930
Diff frm cons (%)	—	*na*	*(50.9)*	*1.0*
Prev. Norm profit	—	(13,554)	4,109	26,864
Chg frm prev (%)	—	*na*	*37.0*	*5.0*
Norm EPS (Bt)	(1.1)	(0.8)	0.4	2.0
Norm EPS grw (%)	na	na	na	401.1
Norm PE (x)	na	na	182.7	36.5
EV/EBITDA (x)	na	na	44.3	19.6
P/BV (x)	9.2	10.3	9.9	8.4
Div yield (%)	0.0	0.0	0.3	1.6
ROE (%)	na	na	5.5	24.9
Net D/E (%)	(6.9)	12.1	13.9	(8.1)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 28-Jun-22 (Bt)	72.00
Market Cap (US$ m)	29,302.3
Listed Shares (m shares)	14,285.7
Free Float (%)	30.0
Avg Daily Turnover (US$ m)	52.0
12M Price H/L (Bt)	70.25/55.75
Sector	Transportation
Major Shareholder	Ministry of Finance 70%

Sources: Bloomberg, Company data, Thanachart estimates

AOT is still our top sector pick

AOT's fast passenger recovery causes us to …

Since new COVID-19 cases began subsiding from April this year and with the government relaxing entry restrictions to Thailand, Airports of Thailand Pcl's (AOT) international passengers recovered strongly to 13% of the FY19 level in April 2022, 22% in May and 28% so far this month from only 5% in 1HFY22 (AOT's fiscal year ends in September) and 1% in FY21.

…boost our earnings forecasts…

The faster-than-expected passenger turnaround leads us to raise our earnings for AOT to a Bt12bn loss in FY22F (from a Bt14bn loss) and by 37/5% in FY23-24F. The key assumption changes are to our international passenger projections which we lift by 57/10/5% to 12-79m in FY22-24F. The numbers imply 14/55/94% of AOT's FY19 international passenger level in FY22-24F. Despite that, our assumptions are still more conservative than AOT's international passenger forecasts at 15/58/101% of the FY19 level in FY22-24.

…and lift our TP to Bt85. Reaffirm BUY

However, as we raise our assumption for long-term international passengers by only 0-2% from FY25F onward, our DCF-based TP (FY23F base year) increases only slightly to Bt85 from Bt83. We reaffirm our BUY rating on AOT. AOT is also in our country top picks list.

Ex 1: Key Assumption Changes

	FY20	FY21	FY22F	FY23F	FY24F
International passengers (m)					
New	37.5	1.0	11.8	46.2	79.0
Old			7.5	42.0	75.5
Change (%)			*57.3*	*10.0*	*4.6*
Domestic passengers (m)					
New	35.2	19.1	33.0	47.2	56.6
Old			30.1	46.3	57.8
Change (pp)			*9.6*	*1.9*	*(2.1)*
Normalized earnings (Bt bn)					
New	5.4	(15.3)	(12.1)	5.6	28.2
Old			(13.9)	4.1	26.9
Change (pp)			*na*	*37.0*	*5.0*

Sources: Company data, Thanachart estimates

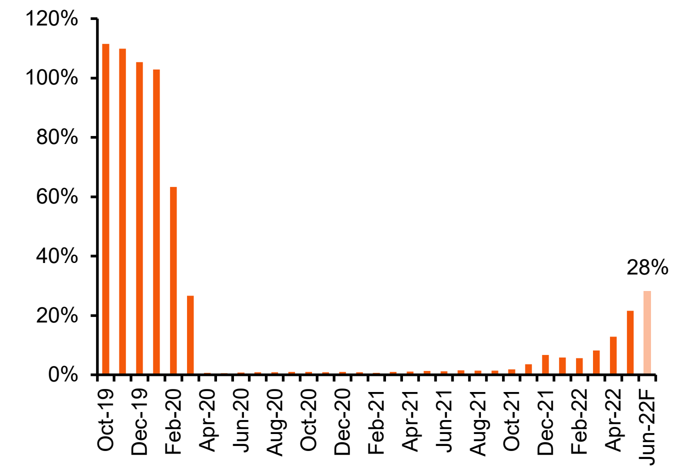
We see catalysts from…

Despite the strong passenger recovery outlook, a 20% rise in the share price from its low this year, we expect AOT's further catalysts from:

…a continued passenger recovery…

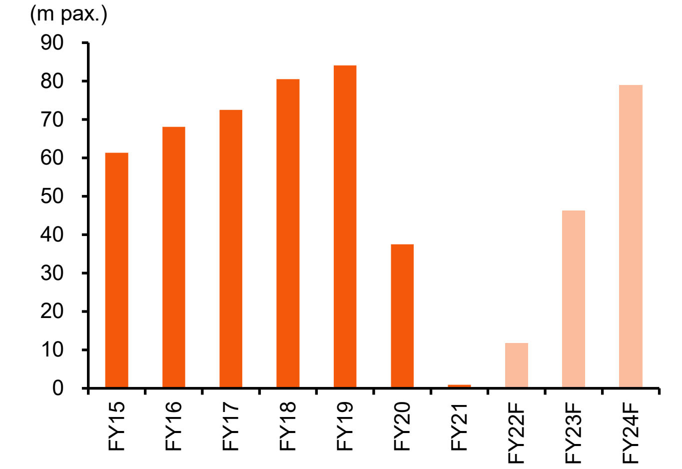
1) A continued strong passenger recovery given the government's easing of entry restrictions and our assumption that China will lift its international travel ban next year.

Ex 2: AOT's Inter. Pax. As % Of The FY19 Level



Source: Company data

Ex 3: AOT's Yearly Inter. Pax.



Sources: Company data, Thanachart estimates

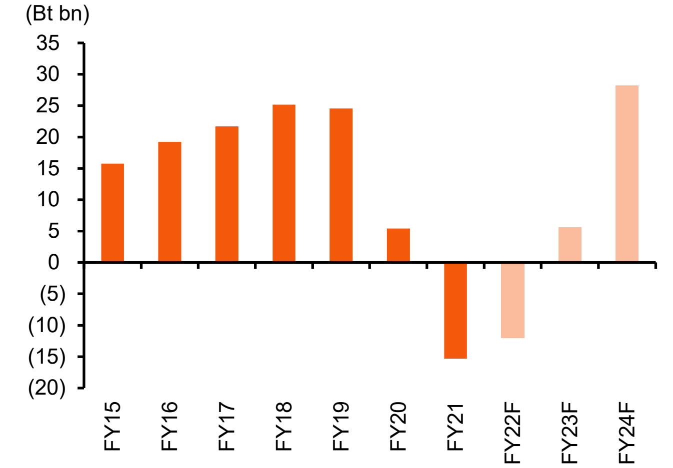
…a resumption of the minimum guarantee collection…

2) The resumption of its minimum guarantee collection from the new duty-free concession at Suvarnabhumi Airport with the minimum guarantee rising from Bt97 per international passenger in FY19 to Bt233 in April 2023 onward. The exemption of the minimum guarantee collection is one of AOT's assistance measures to help operators at its airports during the COVID-19 crisis and we expect all measures to end in March 2023.

…an earnings turnaround in FY23F and record highs in FY24-25F…

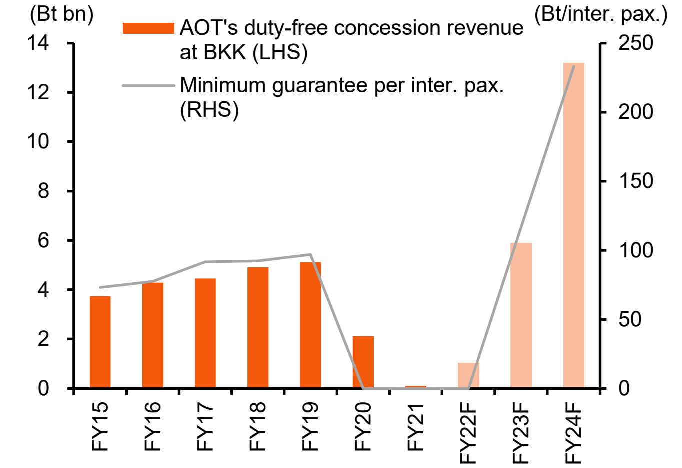
3) Its earnings turnaround to a Bt6bn profit next year and record highs of Bt28bn in FY24F and Bt35bn in FY25F, driven by not only a passenger recovery and a jump in the duty-free minimum guarantee but also its high operating leverage given that 90% of AOT's total revenue is linked to passenger numbers and 70% of its total costs are fixed, mainly employee and depreciation expenses.

Ex 4: AOT's Earnings



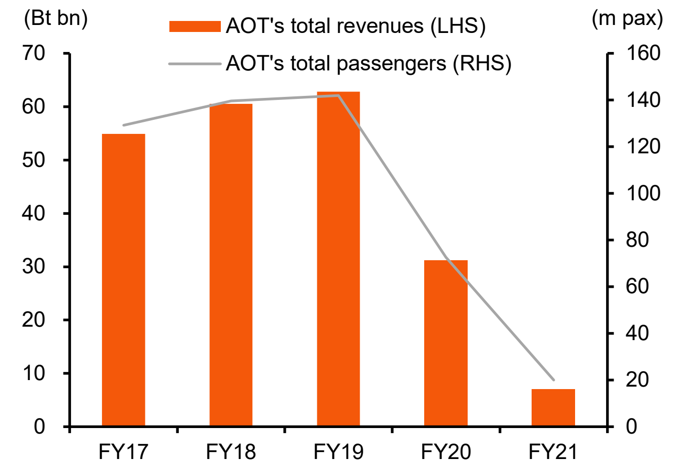
Sources: Company data, Thanachart estimates

Ex 5: AOT's Duty-free Minimum Guarantee Per Inter. Pax.



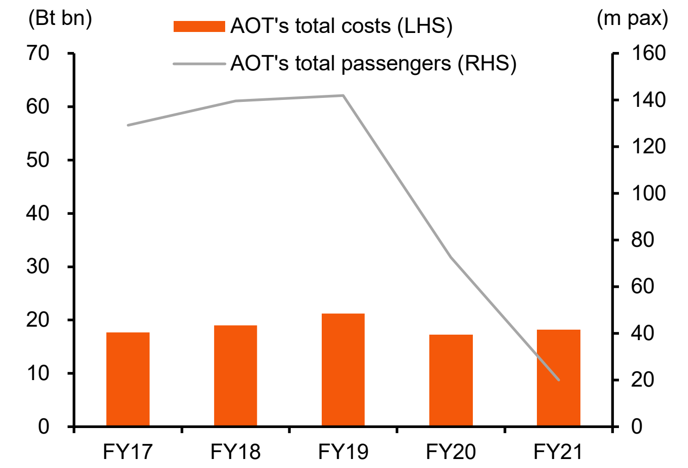
Sources: Company data, Thanachart estimates

Ex 6: 90% of AOT's Revenues Are Linked To Passengers



Sources: Company data

Ex 7: 70% of AOT's Costs Are Fixed

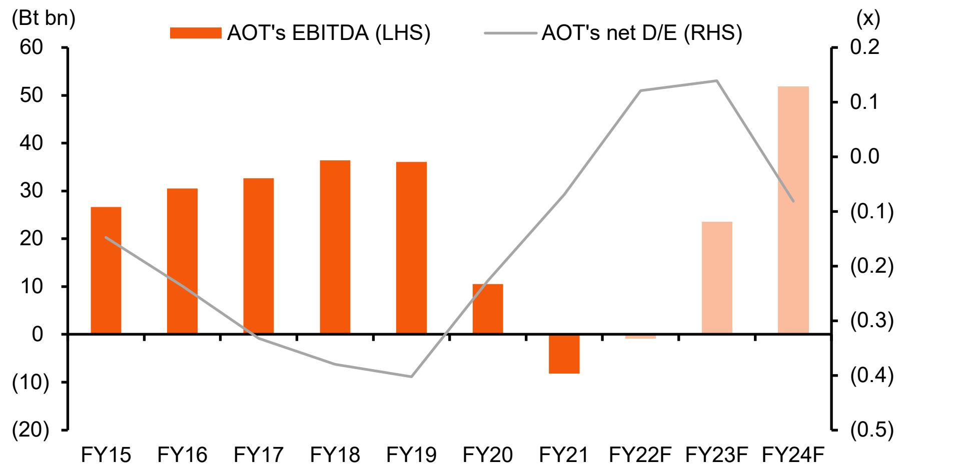


Sources: Company data

…its valuation looking justified, and…

4) We believe AOT's valuation is justified trading at PE multiples of 37x in FY24F and 29x in FY25F vs. its five-year pre-COVID average of 40x in FY15-19 given its near-monopoly power amid Thailand's bright tourism prospects, solid balance sheet with low gearing of 0.1x in FY22-23F before turning to a net-cash position in FY24F, along with ROE rising to 25/27% in FY24-25F from 6% in FY23F and 17% in FY19. The higher profitability is because of the higher return per passenger under the new duty-free concession.

Ex 8: AOT's EBITDA Vs. Net D/E Ratio

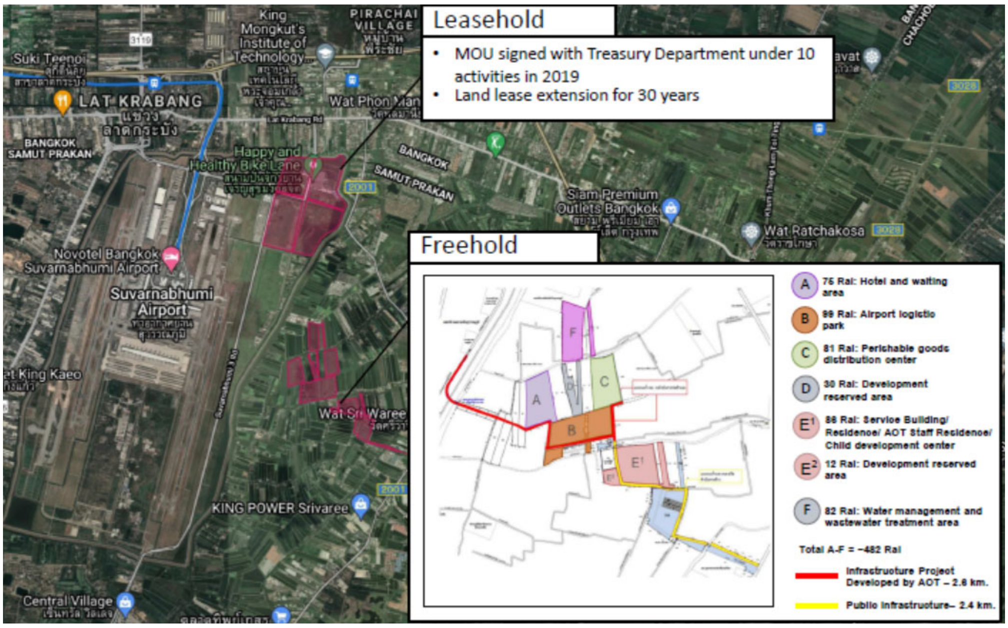


Sources: Company data, Thanachart estimates

…potential upside from the Airport City project

5) Potential upside from the Airport City project (see more details in our previous AOT report, ***The best reopening play***, dated 18 April 2022).

Ex 9: AOT's Airport City Project



Source: Company data

Ex 10: 12-month DCF-based TP Calculation Using A Base Year Of FY23F

(Bt m)	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F	Terminal value
EBITDA excl. depreciation from right of use	21,003	49,325	57,389	65,928	74,525	88,032	94,742	101,344	108,593	116,402	124,818	133,171	—
Free cash flow	(1,104)	34,374	35,577	33,426	30,692	49,457	68,320	67,995	78,035	80,526	83,545	94,203	2,515,996
PV of free cash flow	(1,101)	29,895	28,479	24,844	21,181	31,685	40,640	37,554	38,480	36,701	35,201	36,694	661,628

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.9
WACC (%)	7.2
Terminal growth (%)	2.0
Enterprise value - add investments	1,226,893
Net debt (FY22F)	12,241
Minority interest	973
Equity value	1,213,679
# of shares (m)	14,286
Equity value/share (Bt)	**85.0**

Sources: Thanachart estimates

Valuation Comparison

Ex 11: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (%)	P/BV 23F (%)	EV/EBITDA 22F (x)	EV/EBITDA 23F (x)	Div yield 22F (%)	Div yield 23F (%)
Beijing Capital Int'l	694 HK	China	30.0	98.6	na	na	1.1	1.0	na	14.4	0.0	0.7
Shenzhen Airport Co	000089 CH	China	(20.1)	9.6	5.5	5.0	0.5	0.5	3.8	3.5	5.7	6.3
Xiamen Int'l Airport	600897 CH	China	110.1	47.0	16.0	10.9	1.2	1.1	5.9	4.3	3.1	4.5
Shanghai Int'l Airport	600009 CH	China	19.8	na	na	65.9	4.2	3.9	na	27.1	0.0	0.5
Fraport Frankfurt Airport	FRA GR	Germany	90.6	127.7	29.2	12.5	1.1	1.0	15.0	11.6	0.0	1.3
Japan Airport Terminal	9706 JP	Japan	97.8	na	na	58.5	3.3	2.9	25.6	13.8	0.1	0.6
Grupo Aeroportuario	ASURB MM	Mexico	36.3	11.8	15.5	13.9	3.0	2.8	9.9	9.1	3.7	4.2
SATS Ltd	SATS SP	Singapore	348.6	149.5	49.1	19.8	2.7	2.5	20.3	12.2	1.2	2.9
Airports of Thailand*	AOT TB	Thailand	na	na	na	182.7	10.3	9.9	na	44.3	0.0	0.3
Average			**89.1**	**74.0**	**23.1**	**46.2**	**3.0**	**2.8**	**13.4**	**15.6**	**1.5**	**2.4**

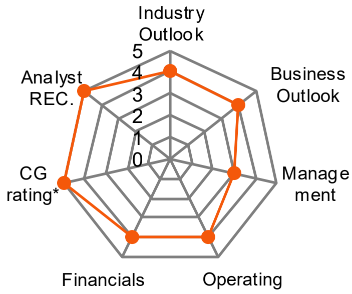
Source: Bloomberg
Note: * Thanachart estimates using normalized EPS
Based on 28 Jun-22 closing prices

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)	73.81	85.00	15%
Norm profit 22F (Bt m)	(9,689)	(12,079)	na
Norm profit 23F (Bt m)	11,465	5,630	-51%
Consensus REC	**BUY: 17**	**HOLD: 7**	**SELL: 2**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our FY22-23F earnings are below the Bloomberg consensus estimates, which we attribute to us having factored in a slower passenger recovery over the period.
- However, our DCF-based TP is 15% higher than 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 depends on the global economy and there is no doubt that tourism would be negatively affected by any global economic volatility.
- If the COVID-19 outbreak worsens, 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

We expect AOT's earnings to turn positive in FY23F…

…and jump to a record high of Bt28bn in FY24F…

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

INCOME STATEMENT

FY ending Sep (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	31,179	7,086	14,870	42,465	74,290
Cost of sales	17,194	18,186	19,886	22,928	24,766
Gross profit	**13,985**	**(11,100)**	**(5,016)**	**19,537**	**49,524**
% gross margin	44.9%	-156.7%	-33.7%	46.0%	66.7%
Selling & administration expenses	8,870	6,099	7,584	9,342	11,143
Operating profit	**5,115**	**(17,199)**	**(12,600)**	**10,195**	**38,380**
% operating margin	16.4%	-242.7%	-84.7%	24.0%	51.7%
Depreciation & amortization	5,441	9,027	11,674	13,369	13,491
EBITDA	**10,556**	**(8,172)**	**(926)**	**23,564**	**51,871**
% EBITDA margin	33.9%	-115.3%	-6.2%	55.5%	69.8%
Non-operating income	1,951	630	393	500	525
Non-operating expenses	0	0	0	0	0
Interest expense	(646)	(2,973)	(3,023)	(3,284)	(2,985)
Pre-tax profit	**6,419**	**(19,542)**	**(15,229)**	**7,411**	**35,920**
Income tax	1,038	(4,173)	(3,046)	1,482	7,184
After-tax profit	**5,381**	**(15,369)**	**(12,184)**	**5,929**	**28,736**
% net margin	17.3%	-216.9%	-81.9%	14.0%	38.7%
Shares in affiliates' Earnings	(0)	(0)	0	0	0
Minority interests	22	50	105	(299)	(523)
Extraordinary items	(1,083)	(1,003)	0	0	0
NET PROFIT	**4,321**	**(16,322)**	**(12,079)**	**5,630**	**28,213**
Normalized profit	**5,403**	**(15,319)**	**(12,079)**	**5,630**	**28,213**
EPS (Bt)	0.3	(1.1)	(0.8)	0.4	2.0
Normalized EPS (Bt)	0.4	(1.1)	(0.8)	0.4	2.0

BALANCE SHEET

FY ending Sep (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	50,491	21,499	24,833	25,180	34,830
Cash & cash equivalent	43,558	17,103	20,000	20,000	30,000
Account receivables	3,225	3,637	4,074	4,421	4,071
Inventories	0	0	0	0	0
Others	3,709	759	759	759	759
Investments & loans	648	6	6	6	6
Net fixed assets	110,130	112,157	118,967	128,434	125,919
Other assets	12,290	61,424	58,555	55,694	52,848
Total assets	**173,559**	**195,086**	**202,361**	**209,314**	**213,603**
LIABILITIES:					
Current liabilities:	15,333	13,610	15,347	14,535	14,855
Account payables	1,809	930	1,017	1,570	2,375
Bank overdraft & ST loans	0	27	0	0	0
Current LT debt	2,848	3,159	4,836	3,470	2,985
Others current liabilities	10,677	9,495	9,495	9,495	9,495
Total LT debt	**8,245**	**6,080**	**27,405**	**31,230**	**16,916**
Others LT liabilities	6,949	61,974	58,371	58,071	57,771
Total liabilities	**30,527**	**81,664**	**101,123**	**103,836**	**89,542**
Minority interest	796	1,078	973	1,272	1,794
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	500	837	837	837	837
Retained earnings	**114,882**	**84,653**	**72,574**	**76,515**	**94,576**
Shareholders' equity	142,236	112,344	100,265	104,206	122,266
Liabilities & equity	**173,559**	**195,086**	**202,361**	**209,314**	**213,603**

Sources: Company data, Thanachart estimates

We assume AOT's capex at Bt169bn over FY22-31F for its capacity expansion

37/29x PEs in FY24-25F look attractive in our view vs. its past-5-year average of 40x in FY15-19

CASH FLOW STATEMENT

FY ending Sep (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	6,419	(19,542)	(15,229)	7,411	35,920
Tax paid	(1,038)	4,173	3,046	(1,482)	(7,184)
Depreciation & amortization	5,441	9,027	11,674	13,369	13,491
Chg In w orking capital	656	(1,290)	(350)	206	1,155
Chg In other CA & CL / minorities	(12,961)	4,573	2,400	2,280	2,166
Cash flow from operations	**(1,483)**	**(3,058)**	**1,540**	**21,784**	**45,548**
Capex	(11,502)	(11,055)	(15,915)	(20,275)	(8,430)
Right of use	0	(35,809)	300	300	300
ST loans & investments	0	0	0	0	0
LT loans & investments	440	642	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(1,361)	38,397	(6,004)	(2,580)	(2,466)
Cash flow from investments	**(12,423)**	**(7,825)**	**(21,619)**	**(22,555)**	**(10,596)**
Debt financing	(2,462)	(2,001)	22,975	2,460	(14,799)
Capital increase	0	0	0	0	0
Dividends paid	(14,999)	(2,714)	0	(1,689)	(10,153)
Warrants & other surplus	(985)	(10,856)	0	0	0
Cash flow from financing	**(18,446)**	**(15,571)**	**22,975**	**771**	**(24,952)**
Free cash flow	**(12,984)**	**(14,113)**	**(14,375)**	**1,509**	**37,118**

VALUATION

FY ending Sep	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	190.4	na	na	182.7	36.5
Normalized PE - at target price (x)	224.7	na	na	215.7	43.0
PE (x)	238.1	na	na	182.7	36.5
PE - at target price (x)	281.0	na	na	215.7	43.0
EV/EBITDA (x)	94.4	na	na	44.3	19.6
EV/EBITDA - at target price (x)	112.0	na	na	52.2	23.2
P/BV (x)	7.2	9.2	10.3	9.9	8.4
P/BV - at target price (x)	8.5	10.8	12.1	11.7	9.9
P/CFO (x)	(693.8)	(336.3)	667.9	47.2	22.6
Price/sales (x)	33.0	145.2	69.2	24.2	13.8
Dividend yield (%)	0.3	0.0	0.0	0.3	1.6
FCF Yield (%)	(1.3)	(1.4)	(1.4)	0.1	3.6
(Bt)					
Normalized EPS	0.4	(1.1)	(0.8)	0.4	2.0
EPS	0.3	(1.1)	(0.8)	0.4	2.0
DPS	0.2	0.0	0.0	0.2	1.2
BV/share	10.0	7.9	7.0	7.3	8.6
CFO/share	(0.1)	(0.2)	0.1	1.5	3.2
FCF/share	(0.9)	(1.0)	(1.0)	0.1	2.6

Sources: Company data, Thanachart estimates

Despite the COVID-19 crisis for two years, the balance sheet is still solid with low gearing

FINANCIAL RATIOS

FY ending Sep	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(50.3)	(77.3)	109.9	185.6	74.9
Net profit (%)	(82.7)	na	na	na	401.1
EPS (%)	(82.7)	na	na	na	401.1
Normalized profit (%)	(78.0)	na	na	na	401.1
Normalized EPS (%)	(78.0)	na	na	na	401.1
Dividend payout ratio (%)	62.8	0.0	0.0	60.0	60.0
Operating performance					
Gross margin (%)	44.9	(156.7)	(33.7)	46.0	66.7
Operating margin (%)	16.4	(242.7)	(84.7)	24.0	51.7
EBITDA margin (%)	33.9	(115.3)	(6.2)	55.5	69.8
Net margin (%)	17.3	(216.9)	(81.9)	14.0	38.7
D/E (incl. minor) (x)	0.1	0.1	0.3	0.3	0.2
Net D/E (incl. minor) (x)	(0.2)	(0.07)	0.12	0.14	(0.08)
Interest coverage - EBIT (x)	7.9	na	na	3.1	12.9
Interest coverage - EBITDA (x)	16.3	na	na	7.2	17.4
ROA - using norm profit (%)	2.9	na	na	2.7	13.3
ROE - using norm profit (%)	3.6	na	na	5.5	24.9
DuPont					
ROE - using after tax profit (%)	3.6	na	na	5.8	25.4
- asset turnover (x)	0.2	0.0	0.1	0.2	0.4
- operating margin (%)	22.7	na	na	25.2	52.4
- leverage (x)	1.3	1.4	1.9	2.0	1.9
- interest burden (%)	90.9	117.9	124.8	69.3	92.3
- tax burden (%)	83.8	na	na	80.0	80.0
WACC (%)	7.2	7.2	7.2	7.2	7.2
ROIC (%)	4.7	(15.7)	(9.6)	7.2	25.8
NOPAT (Bt m)	4,288	(17,199)	(10,080)	8,156	30,704
invested capital (Bt m)	109,771	104,506	112,506	118,906	112,168

Sources: Company data, Thanachart estimates

BUY (Unchanged)

Change in Numbers

TP: Bt 13.50 (Unchanged)

Upside : 18.1%

29 June 2022

Small Cap Research

Thanachart Securities

Bangkok Airways Pcl (BA TB)

Inexpensive

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Despite cutting our earnings given our more cautious view on the airline industry's turnaround, we reaffirm our BUY call on BA for its attractive valuation. On our numbers, buying BA at its current price implies that investors pay for its investment portfolio only and get the airline and airport businesses for free.

Cutting our earnings

This note is part of our Thailand Air Transportation Sector report, *The opening sky,* dated 29 June 2022. We cut our earnings for BA to higher losses in 2022-23F and by 30% in 2024F (Exhibit 1) as we assume 30-69% higher jet-fuel prices of USD135/118/104/bbl in 2022-24F (vs. USD168/bbl at its peak this month, USD110 in 1Q22 and USD78 in 2019). We also assume 13-53% higher revenue per available seat kilometer (RASK) of Bt4.6/4.7/4.4 per ASK as we expect BA to be able to partly pass on rising costs to passengers due to its monopolistic Samui routes. Samui routes made up 61% of BA's passenger revenue in 1Q22 and 48% in 2019. However, with the rollover of the base year in our model to 2023F, our DCF-derived SOTP-based 12-month TP is maintained at Bt13.5/share.

Inexpensive, in our view

Despite our more cautious view on the airline business's recovery and the 24% surge in its share price from its low this year, we still see BA as inexpensive. BA is trading at an 8% discount to our estimate of its investment portfolio value, for which we assume a 15% holding company discount, at Bt12/BA share. Of this value, Bt11.1 is from its 5.2% stake in Bangkok Dusit Medical Services (BDMS TB, Bt24.9, BUY) and Bt0.9 from its 10% stake in Bangkok Aviation Fuel Services (BAFS TB, Bt28.75, not rated). In other words, by buying BA now, investors pay for its investment portfolio only and get the airline and airport businesses for free.

Another potential airport

BA currently owns Samui Airport and its catering, ground and cargo businesses. The airport-related revenue made up 17% of total revenue in 2019. Its 45%-owned BBS JV (35% held by BTS Group [BTS TB, Bt8.7, BUY] and 20% by Sino-Thai Engineering [STEC TB, Bt12.5, BUY]) is also the concessionaire to invest and operate the expansion phases of U-Tapao airport. However, we have yet to factor the project into our model as it is still under the masterplan development stage and then it would take at least four years to build. If we assume a 10% IRR for the first-phase investment, we estimate an additional value of Bt1/share for BA.

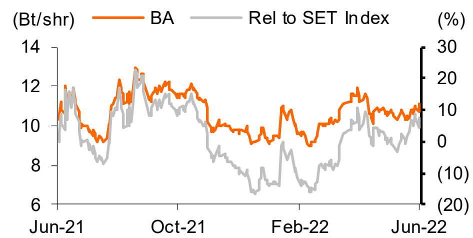
Potential upside from REIT

BA terminated the lease agreement on Samui Airport assets with the Samui Airport Property Fund (SPF) last year with a plan to lease it out again to a new REIT. We believe this deal will benefit BA via lower funding costs (vs. 12.6% p.a. on average for SPF). The proceeds from the REIT would also help BA to lower its debt and fund its projects. Moreover, the REIT would be the funding vehicle for BA in the future.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	2,717	8,541	14,814	19,724
Net profit	(8,550)	(3,260)	(664)	803
Consensus NP	—	(938)	843	1,623
Diff frm cons (%)	—	*na*	*na*	*(50.5)*
Norm profit	(3,171)	(3,260)	(664)	803
Prev. Norm profit	—	(2,894)	221	1,153
Chg frm prev (%)	—	*na*	*na*	*(30.4)*
Norm EPS (Bt)	(1.5)	(1.6)	(0.3)	0.4
Norm EPS grw (%)	na	na	na	na
Norm PE (x)	na	na	na	29.0
EV/EBITDA (x)	na	na	49.4	19.8
P/BV (x)	1.8	2.3	2.5	2.3
Div yield (%)	0.0	0.0	0.0	0.0
ROE (%)	na	na	na	8.3
Net D/E (%)	151.6	198.5	197.8	157.1

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 28-Jun-22 (Bt)	11.10
Market Cap (US$ m)	664.1
Listed Shares (m shares)	2,100.0
Free Float (%)	38.2
Avg Daily Turnover (US$ m)	1.4
12M Price H/L (Bt)	12.90/8.95
Sector	Transportation
Major Shareholder	Prasarttong-Osoth family 58%

Sources: Bloomberg, Company data, Thanachart estimates

Cutting our earnings but maintaining BUY call

We cut our earnings estimates for BA but keep our BUY rating given…

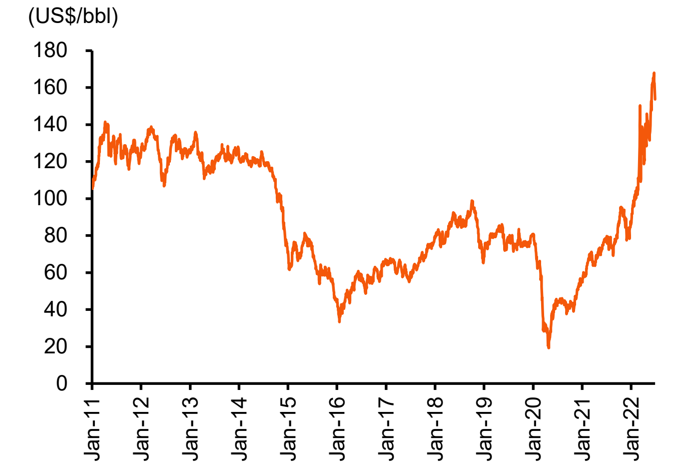
Given our concerns over rising jet fuel prices, higher ramp and airport operation expenses, more intense competition after airlines' swift capacity ramp-up, and higher interest expenses with the rising interest rate trend (see more details in our Thailand Air Transportation Sector report, *The opening sky*, dated 29 June 2022), we revise down our earnings estimates for BA to a Bt3.3bn loss in 2022F (from a Bt2.9bn loss), a Bt0.7bn loss in 2023F (from a Bt0.2bn profit) and by 30% in 2024F (see our key assumption changes in Exhibit 1). However, with the rollover of the base year in our model to 2023F, our DCF-derived SOTP-based 12-month TP is maintained at Bt13.5/share.

Ex 1: Key Assumption Changes

	2020	2021	2022F	2023F	2024F
Revenues per ASK (Bt)					
New	3.1	3.9	4.6	4.7	4.4
Old			3.0	3.4	3.9
Change (%)			*53.3*	*38.2*	*12.8*
Costs per ASK (Bt)					
New	4.8	11.0	7.6	5.6	4.2
Old			4.1	3.1	3.4
Change (%)			*85.4*	*80.6*	*23.5*
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	(3.8)	(3.2)	(3.3)	(0.7)	0.8
Old			(2.9)	0.2	1.2
Change (%)			*na*	*na*	*(30.4)*

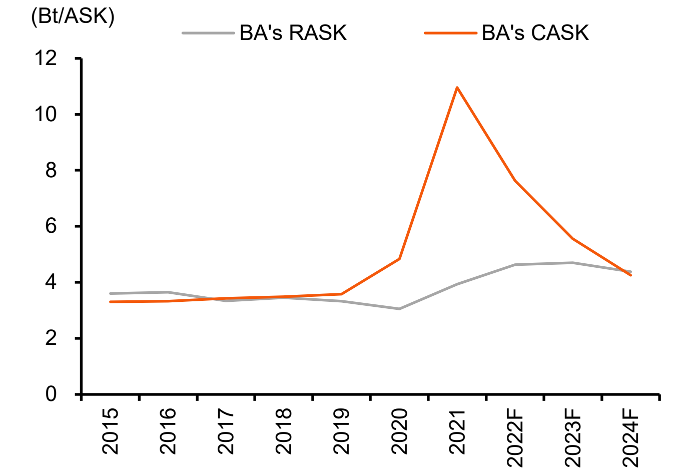
Sources: Company data, Thanachart estimates

Ex 2: Jet Fuel Prices



Source: Bloomberg

Ex 3: BA's RASK Vs. CASK



Sources: Company data, Thanachart estimates

However, we maintain our BUY call on BA given:

...its cheap valuation...

1) Its attractive valuation, in our view, as BA now trades at an 8% discount to our estimate of its investment portfolio value, for which we assume a 15% holding company discount, at Bt12 per BA share. In other words, investors buying BA at the current price pay for its investment portfolio only and get the airline and Samui Airport businesses for free. Out of our SOTP value of Bt12/share, Bt11.1 comes from its 5.2%-owned Bangkok Dusit Medical Services (BDMS TB, Bt24.9, BUY) and Bt0.9 from its 10%-owned Bangkok Aviation Fuel Services (BAFS TB, Bt28.75, not rated).

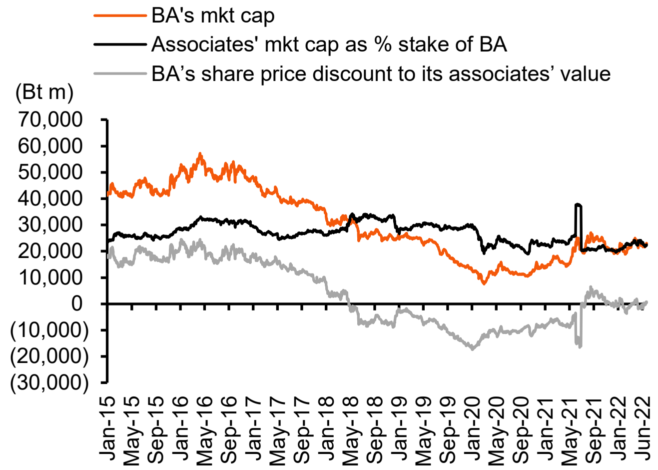
Ex 4: Our Sum-of-the-parts Valuation For BA

BBG code	% holding	15% discount (Bt m)	Current price (Bt/share)	Market value (Bt m)
BDMS TB	5.2%	23,225	24.90	20,617
BAFS TB	10.0%	1,897	28.75	1,833
Total		**25,121**		**22,449**
Per BA share (Bt)		**12.0**		**10.7**
Airline and airport value (Bt) (DCF derived)		**1.5**		
Our TP (Bt)		**13.5**		

Sources: Company data, Thanachart estimates

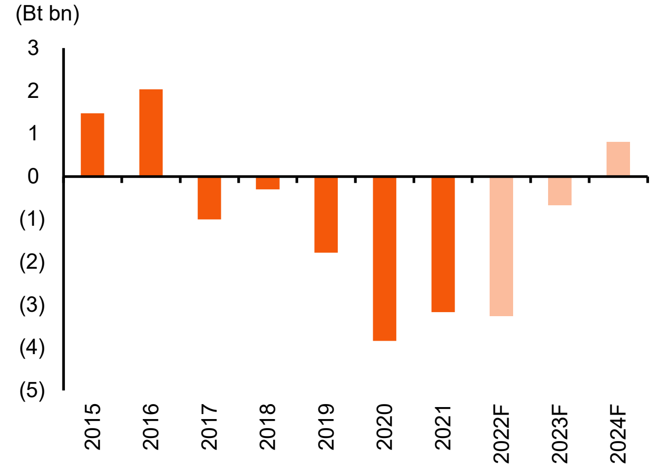
Exhibit 5 shows that BA traded 65-70% above its associates' market value when it made profits of Bt1.5-2bn in 2015-16. However, intense competition in the airline industry, rising oil prices, and then the COVID-19 crisis hit its airline business hard and turned its earnings to a long period of losses, causing its share price to fall significantly and trade at a 26-49% discount to its associates' market value in 2019-20. Then, the strong tourism recovery outlook and BA's decision to buy Samui Airport assets back from Samui Airport Property Fund (SPF TB, Delisted) caused the share price to recover and trade at its associates' market value. Given our view of a gradual turnaround of its airline and airport businesses, we expect BA's share price to recover further at least above its associates' market value.

Ex 5: BA's Market Cap Vs. Its Associates' Market Cap



Sources: Company data, Thanachart estimates

Ex 6: BA's Earnings

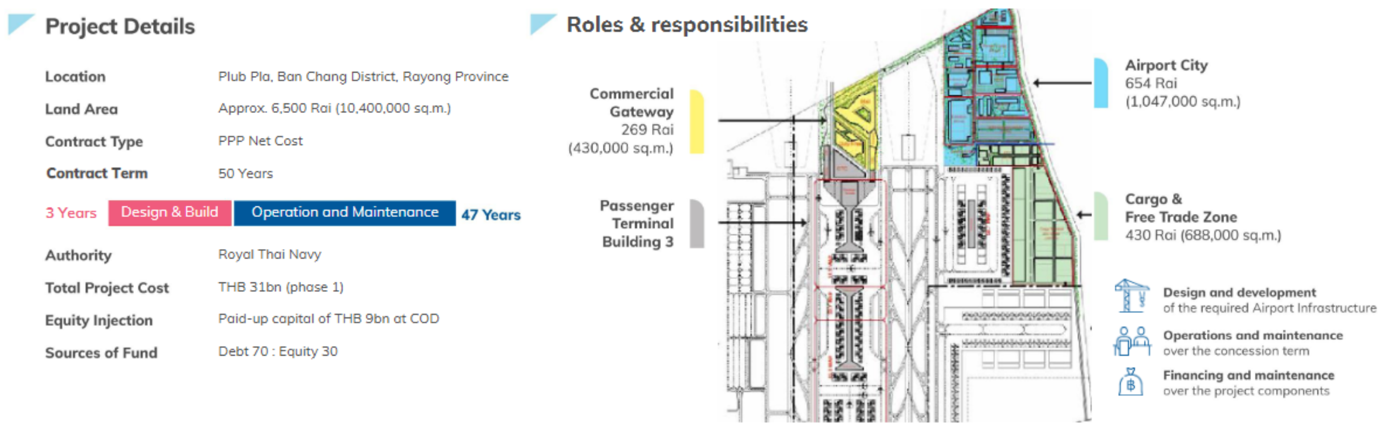


Sources: Company data, Thanachart estimates

...potential upside from another airport business...

2) Potential upside from the U-Tapao Airport project. Its 45%-owned BBS consortium won a 50-year concession to expand and operate U-Tapao Airport in 2020. The first phase's project cost is estimated at Bt31bn. Despite that, we have yet to factor this project into our model because it is still under the detailed masterplan development stage and then construction would take at least four years. However, if we assume a 10% IRR for the Bt31bn first-phase investment, we estimate an additional value of Bt1/share for BA.

Ex 7: U-Tapao Airport Project



Source: BTS Group Holding

...potential upside from a REIT

3) Potential upside from a REIT. BA terminated the lease agreement on Samui Airport assets with the Samui Airport Property Fund (SPF) last year with a plan to lease it out again to a new REIT late this year or early next year. We believe this deal would benefit BA via lower funding costs (vs. 12.6% p.a. on average for SPF). The proceeds from the REIT would also help BA to lower its debts and fund its projects. The REIT would also be the funding vehicle for BA in the future.

Valuation Comparison

Ex 8: Valuation Comparison With Regional Peers

Company	Code	Country	EPS Growth 22F (%)	EPS Growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	EV/EBITDA 22F (x)	EV/EBITDA 23F (x)	Div. Yield 22F (%)	Div. Yield 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 Thanachart normalized EPS

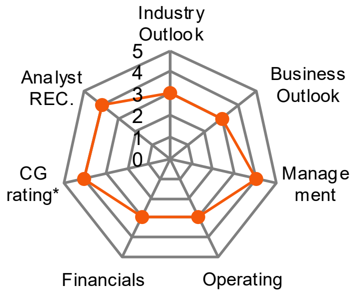
Based on 28 Jun-22 closing prices

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)	12.14	13.50	11%
Net profit 22F (Bt m)	(938)	(3,260)	na
Net profit 23F (Bt m)	843	(664)	na
Consensus REC	**BUY: 2**	**HOLD: 3**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022-23F losses are far higher than the Bloomberg consensus numbers, likely due to us anticipating a slower passenger recovery and higher jet fuel prices.
- Our TP is also higher than the Street's likely because we have a 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 estimate BA's earnings to turn to a profit in 2024F…

…driven by a recovery in passenger numbers and lower oil prices

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	7,666	2,717	8,541	14,814	19,724
Cost of sales	10,857	6,115	10,537	14,061	17,489
Gross profit	**(3,191)**	**(3,398)**	**(1,996)**	**753**	**2,235**
% gross margin	-41.6%	-125.1%	-23.4%	5.1%	11.3%
Selling & administration expenses	2,384	1,551	1,879	2,222	2,564
Operating profit	**(5,576)**	**(4,949)**	**(3,875)**	**(1,469)**	**(329)**
% operating margin	-72.7%	-182.2%	-45.4%	-9.9%	-1.7%
Depreciation & amortization	2,843	2,342	2,281	2,311	2,301
EBITDA	**(2,733)**	**(2,607)**	**(1,594)**	**842**	**1,972**
% EBITDA margin	-35.6%	-96.0%	-18.7%	5.7%	10.0%
Non-operating income	2,356	2,429	1,270	1,310	1,409
Non-operating expenses	(2)	(5)	0	0	0
Interest expense	(1,117)	(1,265)	(1,202)	(1,153)	(1,046)
Pre-tax profit	**(4,338)**	**(3,791)**	**(3,808)**	**(1,312)**	**34**
Income tax	100	(117)	0	0	7
After-tax profit	**(4,439)**	**(3,674)**	**(3,808)**	**(1,312)**	**27**
% net margin	-57.9%	-135.2%	-44.6%	-8.9%	0.1%
Shares in affiliates' Earnings	555	453	391	375	413
Minority interests	45	50	157	273	363
Extraordinary items	(1,444)	(5,379)	0	0	0
NET PROFIT	**(5,283)**	**(8,550)**	**(3,260)**	**(664)**	**803**
Normalized profit	**(3,839)**	**(3,171)**	**(3,260)**	**(664)**	**803**
EPS (Bt)	(2.5)	(4.1)	(1.6)	(0.3)	0.4
Normalized EPS (Bt)	(1.8)	(1.5)	(1.6)	(0.3)	0.4

We are not too concerned about BA's high net D/E ratio…

…given the plan to lease out Samui Airport assets to a REIT and its Bt22bn investment portfolio

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	3,257	3,106	3,187	3,761	4,238
Cash & cash equivalent	2,181	2,126	2,000	2,000	2,000
Account receivables	401	373	585	1,015	1,351
Inventories	477	438	433	578	719
Others	198	169	169	169	169
Investments & loans	28,305	28,191	28,191	28,191	28,191
Net fixed assets	9,777	8,927	8,646	8,336	8,035
Other assets	9,263	8,715	8,725	8,735	8,745
Total assets	**50,602**	**48,939**	**48,749**	**49,023**	**49,210**
LIABILITIES:					
Current liabilities:	10,677	23,803	10,938	11,066	11,010
Account payables	1,119	967	1,010	1,348	1,677
Bank overdraft & ST loans	1,105	917	900	842	738
Current LT debt	917	16,617	2,490	2,332	2,044
Others current liabilities	7,537	5,302	6,538	6,544	6,550
Total LT debt	**12,669**	**4,540**	**18,263**	**17,099**	**14,992**
Others LT liabilities	7,649	7,434	9,646	11,620	13,167
Total liabilities	**30,996**	**35,777**	**38,847**	**39,785**	**39,169**
Minority interest	14	(36)	(36)	(36)	(36)
Preferreds shares	0	0	0	0	0
Paid-up capital	2,100	2,100	2,100	2,100	2,100
Share premium	9,319	9,320	9,320	9,320	9,320
Warrants	0	0	0	0	0
Surplus	13,562	15,701	15,701	15,701	15,701
Retained earnings	**(5,390)**	**(13,922)**	**(17,182)**	**(17,846)**	**(17,044)**
Shareholders' equity	19,591	13,198	9,939	9,274	10,077
Liabilities & equity	**50,602**	**48,939**	**48,749**	**49,023**	**49,210**

Sources: Company data, Thanachart estimates

Investors buying BA pay for its investment portfolio only and get the airline and airport businesses for free

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	(4,338)	(3,791)	(3,808)	(1,312)	34
Tax paid	(378)	117	0	0	(7)
Depreciation & amortization	2,843	2,342	2,281	2,311	2,301
Chg In w orking capital	(896)	(85)	(164)	(237)	(148)
Chg In other CA & CL / minorities	4,119	(1,763)	1,783	654	782
Cash flow from operations	**1,349**	**(3,180)**	**92**	**1,416**	**2,961**
Capex	2,989	(1,493)	(2,000)	(2,000)	(2,000)
Right of use	(7,763)	796	(10)	(10)	(10)
ST loans & investments	0	0	0	0	0
LT loans & investments	3,665	114	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	467	(5,359)	2,213	1,974	1,546
Cash flow from investments	**(641)**	**(5,941)**	**203**	**(36)**	**(464)**
Debt financing	(2,773)	6,909	(421)	(1,380)	(2,498)
Capital increase	0	0	0	0	0
Dividends paid	(203)	(0)	0	0	0
Warrants & other surplus	(4,870)	2,157	0	0	0
Cash flow from financing	**(7,846)**	**9,066**	**(421)**	**(1,380)**	**(2,498)**
Free cash flow	**4,338**	**(4,673)**	**(1,908)**	**(584)**	**961**

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	na	na	na	na	29.0
Normalized PE - at target price (x)	na	na	na	na	35.3
PE (x)	na	na	na	na	29.0
PE - at target price (x)	na	na	na	na	35.3
EV/EBITDA (x)	na	na	na	49.4	19.8
EV/EBITDA - at target price (x)	na	na	na	55.4	22.4
P/BV (x)	1.2	1.8	2.3	2.5	2.3
P/BV - at target price (x)	1.4	2.1	2.9	3.1	2.8
P/CFO (x)	17.3	(7.3)	252.3	16.5	7.9
Price/sales (x)	3.0	8.6	2.7	1.6	1.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF Yield (%)	18.6	(20.0)	(8.2)	(2.5)	4.1
(Bt)					
Normalized EPS	(1.8)	(1.5)	(1.6)	(0.3)	0.4
EPS	(2.5)	(4.1)	(1.6)	(0.3)	0.4
DPS	0.0	0.0	0.0	0.0	0.0
BV/share	9.3	6.3	4.7	4.4	4.8
CFO/share	0.6	(1.5)	0.0	0.7	1.4
FCF/share	2.1	(2.2)	(0.9)	(0.3)	0.5

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(68.0)	(64.6)	214.4	73.4	33.2
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 (%)	(41.6)	(125.1)	(23.4)	5.1	11.3
Operating margin (%)	(72.7)	(182.2)	(45.4)	(9.9)	(1.7)
EBITDA margin (%)	(35.6)	(96.0)	(18.7)	5.7	10.0
Net margin (%)	(57.9)	(135.2)	(44.6)	(8.9)	0.1
D/E (incl. minor) (x)	0.7	1.7	2.2	2.2	1.8
Net D/E (incl. minor) (x)	0.6	1.5	2.0	2.0	1.6
Interest coverage - EBIT (x)	na	na	na	na	na
Interest coverage - EBITDA (x)	na	na	na	0.7	1.9
ROA - using norm profit (%)	na	na	na	na	1.6
ROE - using norm profit (%)	na	na	na	na	8.3
DuPont					
ROE - using after tax profit (%)	na	na	na	na	0.3
- asset turnover (x)	0.1	0.1	0.2	0.3	0.4
- operating margin (%)	na	na	na	na	5.5
- leverage (x)	2.3	3.0	4.2	5.1	5.1
- interest burden (%)	134.7	150.1	146.2	825.1	3.2
- tax burden (%)	na	na	na	na	80.0
WACC (%)	7.1	7.1	7.1	7.1	7.1
ROIC (%)	(14.5)	(15.4)	(9.4)	(4.0)	(1.0)
NOPAT (Bt m)	(5,576)	(4,949)	(3,100)	(1,175)	(263)
invested capital (Bt m)	32,101	33,146	29,592	27,547	25,852

Sources: Company data, Thanachart estimates

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