

BUY (Unchanged)

Change in Numbers

TP: Bt 13.50

Upside : 18.1%

(Unchanged)

29 June 2022

Small Cap Research

Bangkok Airways Pcl (BA TB)

Inexpensive

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.

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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.

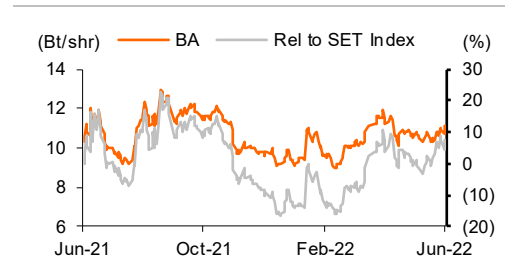
Potential upside from REIT

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.

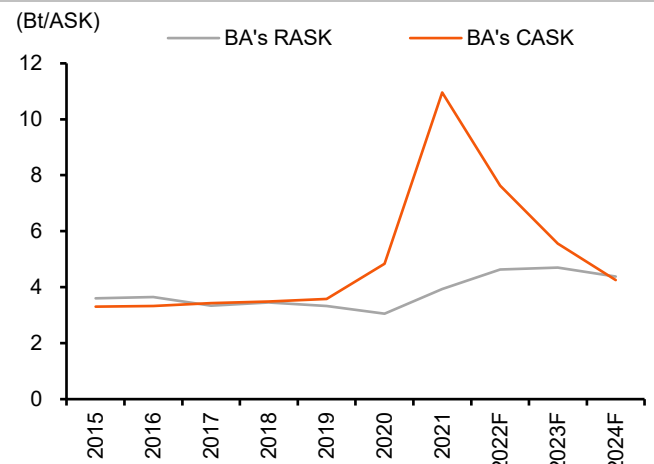
Ex 1: Key Assumption Changes

	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).

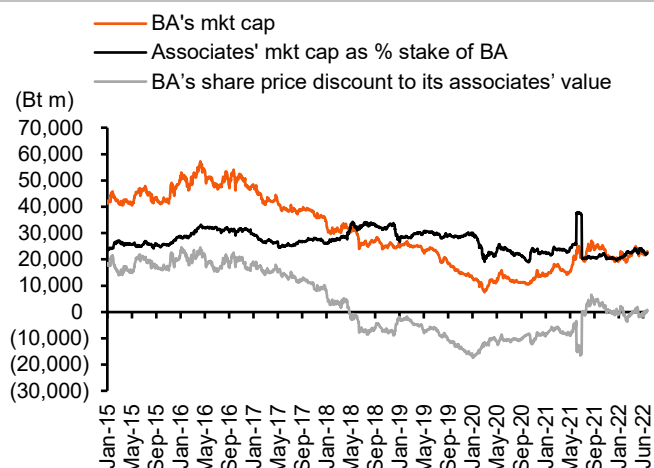
Ex 4: Our Sum-of-the-parts Valuation For BA

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

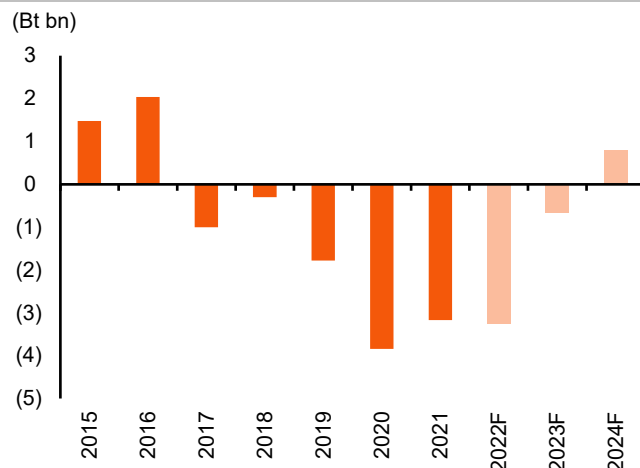
Exhibit 5 shows that BA traded 65-70% above its associates' market value when it made profits of Bt1.5-2bn in 2015-16. However, intense competition in the airline industry, rising oil prices, and then the COVID-19 crisis hit its airline business hard and turned its earnings to a long period of losses, 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

<p>Project Details</p> <p>Location Plub Pla, Ban Chang District, Rayong Province</p> <p>Land Area Approx. 6,500 Rai (10,400,000 sq.m.)</p> <p>Contract Type PPP Net Cost</p> <p>Contract Term 50 Years</p> <p>3 Years Design & Build Operation and Maintenance 47 Years</p> <p>Authority Royal Thai Navy</p> <p>Total Project Cost THB 31bn (phase 1)</p> <p>Equity Injection Paid-up capital of THB 9bn at COD</p> <p>Sources of Fund Debt 70 : Equity 30</p>	<p>Roles & responsibilities</p> <p>Commercial Gateway 269 Rai (430,000 sq.m.)</p> <p>Passenger Terminal Building 3</p> <p>Airport City 654 Rai (1,047,000 sq.m.)</p> <p>Cargo & Free Trade Zone 430 Rai (688,000 sq.m.)</p> <p>Design and development of the required Airport Infrastructure</p> <p>Operations and maintenance over the concession term</p> <p>Financing and maintenance over the project components</p>
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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		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 Thanachart normalized EPS

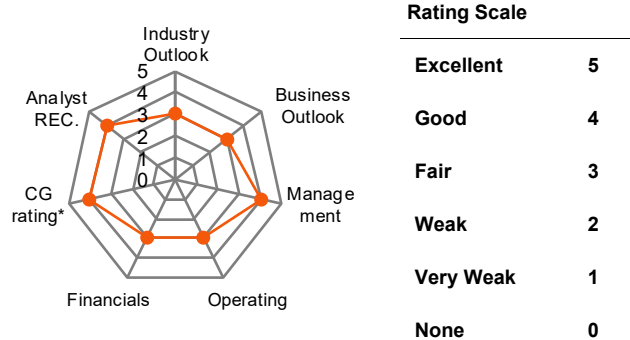
Based on 28 Jun-22 closing prices

COMPANY DESCRIPTION

Owned by the Prasartong-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



Source: Thanachart; *CG Rating

Rating Scale

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

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.

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.

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.

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

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 estimate BA's earnings to turn to a profit in 2024F...

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

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

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

Sources: Company data, Thanachart estimates

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 working 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

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

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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