Asia Aviation Pcl (AAV TB) - SELL, Price Bt2.72, TP Bt2.30

Results Comment

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Higher-than-expected 2Q22 loss

- AAV reported a normalized loss of Bt2.3bn for 2Q22 versus a normalized loss of Bt1.3bn in 2Q21 and Bt2.5bn in 1Q22. The loss was higher than what we had expected. As its 1H22 loss make up 74% of our full-year loss forecast, we see a downside risk to our forecast this year.
- Even though we expect an air travel demand recovery and lower oil prices to lower AAV's loss next year and turn around its earnings into a profit in 2024F, we have a SELL call on AAV as 1) we believe the share price recovery have already reflected the expectation, 2) we are concerned on intense competition after other airlines have also resumed their operation, and 3) despite an capital increase, its financial status is still weak with a net D/E ratio starting to rise again to 0.6x.
- AAV's revenue increased 174% y-y in 2Q22 due to an air travel demand recovery. Its passengers increased 133% y-y in 2Q22 and its average fares rose by 17% y-y. This caused its revenue per available seat kilometres (RASK) to increase 27% y-y to Bt1.49/ASK.
- Despite a rise in jet fuel prices, higher ASK by 116% y-y caused its costs per available seat kilometres (CASK) to fall 19% y-y in 2Q22 to Bt3.19/ASK.
- These made its gross margin in 2Q22 to still be in negative territory while SG&A expenses increased 20% y-y following higher revenue.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Revenue	983	170	1,529	1,786	2,692
Gross profit	**(1,807)**	**(1,648)**	**(2,270)**	**(2,549)**	**(2,296)**
SG&A	313	284	334	368	376
Operating profit	(2,120)	(1,932)	(2,604)	(2,917)	(2,671)
EBITDA	**(836)**	**(813)**	**(718)**	**(1,341)**	**(1,068)**
Other income	106	294	(123)	101	90
Other expense	1	2	21	0	0
Interest expense	425	476	572	559	552
Profit before tax	**(2,439)**	**(2,117)**	**(3,321)**	**(3,375)**	**(3,133)**
Income tax	(152)	(369)	(1,008)	(722)	(841)
Equity & invest. income	0	0	0	0	0
Minority interests	1,030	787	927	184	0
Extraordinary items	(434)	(1,137)	362	98	(2,432)
Net profit	**(1,692)**	**(2,098)**	**(1,024)**	**(2,371)**	**(4,724)**
Normalized profit	**(1,258)**	**(961)**	**(1,385)**	**(2,468)**	**(2,292)**
EPS (Bt)	(0.35)	(0.43)	(0.21)	(0.49)	(0.97)
Normalized EPS (Bt)	(0.26)	(0.20)	(0.29)	(0.51)	(0.47)

Income Statement			6M as		
(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F
Revenue	51	174	21	21,778	32,422
Gross profit	**na**	**na**	**121**	**(4,007)**	**3,581**
SG&A	2	20	31	2,396	2,432
Operating profit	na	na	87	(6,403)	1,149
EBITDA	**na**	**na**	**(27)**	**8,873**	**6,527**
Other income	(11)	(15)	43	442	425
Other expense			na		
Interest expense	(1)	30	48	2,304	2,270
Profit before tax	**na**	**na**	**79**	**(8,265)**	**(696)**
Income tax	na	na	95	(1,653)	(139)
Equity & invest. income					
Minority interests			98	189	0
Extraordinary items	na	na	na	0	0
Net profit	**na**	**na**	**110**	**(6,423)**	**(557)**
Normalized profit	**na**	**na**	**74**	**(6,423)**	**(557)**
EPS (Bt)	na	na	291	(0.50)	(0.04)
Normalized EPS (Bt)	na	na	195	(0.50)	(0.04)

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Cash & ST investment	234	23	5,360	2,807	1,326
A/C receivable	267	260	563	669	480
Inventory	214	223	230	217	265
Other current assets	1,000	1,087	1,520	1,949	2,405
Investment	0	0	0	0	0
Fixed assets	5,899	5,442	5,277	4,392	4,310
Other assets	56,987	57,555	58,258	57,555	57,042
Total assets	**64,601**	**64,590**	**71,208**	**67,589**	**65,827**
S-T debt	3,643	3,944	3,571	3,633	2,764
A/C payable	813	961	989	806	956
Other current liabilities	17,224	17,865	13,000	12,161	15,759
L-T debt	4,598	4,309	4,093	3,889	4,095
Other liabilities	27,231	30,196	32,726	33,613	33,489
Minority interest	272	(1,429)	(3,372)	0	0
Shareholders' equity	**10,820**	**8,744**	**20,201**	**13,489**	**8,765**
Working capital	(332)	(479)	(196)	81	(211)
Total debt	8,241	8,253	7,664	7,521	6,858
Net debt	**8,008**	**8,230**	**2,305**	**4,714**	**5,533**

Financial Ratios					
(%)	2Q21	3Q21	4Q21	1Q22	2Q22
Sales growth	268.9	(92.0)	(55.5)	55.8	173.8
Operating profit growth	na	na	na	na	na
EBITDA growth	na	na	na	na	na
Norm profit growth	na	na	na	na	na
Norm EPS growth	na	na	na	na	na
Gross margin	(183.7)	(970.5)	(148.5)	(142.7)	(85.3)
Operating margin	(215.6)	(1,137.7)	(170.3)	(163.3)	(99.2)
EBITDA margin	(85.0)	(478.5)	(47.0)	(75.1)	(39.7)
Norm net margin	(128.0)	(566.1)	(90.6)	(138.2)	(85.1)
D/E (x)	0.7	1.1	0.5	0.6	0.8
Net D/E (x)	0.7	1.1	0.1	0.3	0.6
Interest coverage (x)	(2.0)	(1.7)	(1.3)	(2.4)	(1.9)
Interest rate	21.0	23.1	28.7	29.4	30.7
Effective tax rate	6.2	17.4	30.4	21.4	26.9
ROA	(7.7)	(6.0)	(8.2)	(14.2)	(13.7)
ROE	(43.2)	(39.3)	(38.3)	(58.6)	(82.4)

Sources: Company data, Thanachart estimates

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