

Asia Aviation Pcl (AAV TB) - SELL, Price Bt2.70, TP Bt2.40**Results Comment**

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Stronger-than-expected 2Q earnings

- AAV reported a normalized profit of Bt278m for 2Q23 vs. a normalized loss of Bt1.8bn in 2Q22 and a normalized profit of Bt44m in 2Q23. The earnings were stronger than what we had expected. Including Bt1.4bn forex loss, Bt80m loss on expected credit losses, and Bt180m gain from the expiration of unused travel credits, it reported a net loss of Bt1bn in 1Q23.
- Even though its profit before tax was negative, a huge tax credit caused its earnings to be positive in this quarter.
- We have a SELL call on AAV as 1) we are concerned on intense competition after its competitors resume their operation and 2) valuation looks expensive to us with the share trading at PEs of 75x this year and 40x next year.
- AAV's revenue increased 273% y-y in 2Q23 due to a strong air travel demand recovery after the COVID-19 crisis. Its passengers increased 176% y-y in 2Q23 while its average fare rose by 33% y-y. Despite higher available seat kilometers (ASK) by 228% y-y in 2Q23, its revenue per ASK increased by 14% y-y to Bt1.69 in 1Q23.
- Higher ASK also caused its costs per ASK to fall by 47% y-y in 2Q23 to Bt1.70. This made its gross margin to improve to 10% in 2Q23 vs. a negative 85% in 2Q22. SG&A expenses increased 74% y-y in 2Q23 following higher revenue.
- Other income grew 314% y-y due to the expiration of unused travel credits incurred during the COVID-19 crisis.

Income Statement (consolidated)						Income Statement 6M as					
Yr-end Dec (Bt m)	2Q22	3Q22	4Q22	1Q23	2Q23	(Bt m)	q-q%	y-y%	% 2023F	2023F	2024F
Revenue	2,692	4,811	8,264	9,086	10,036	Revenue	10	273	46	41,424	41,943
Gross profit	(2,296)	(1,807)	672	1,184	998	Gross profit	(16)	na	43	5,034	5,545
SG&A	376	412	555	680	652	SG&A	(4)	74	49	2,693	2,705
Operating profit	(2,671)	(2,220)	117	505	346	Operating profit	(31)	na	36	2,342	2,840
EBITDA	(1,068)	(679)	1,511	1,812	1,597	EBITDA	(12)	na	68	4,987	5,468
Other income	90	89	65	173	192	Other income	11	113	89	408	408
Other expense	0	0	47	0	0	Other expense					
Interest expense	552	625	484	494	549	Interest expense	11	(0)	48	2,174	2,166
Profit before tax	(3,133)	(2,756)	(350)	184	(11)	Profit before tax	na	na	30	575	1,082
Income tax	(1,321)	(2,155)	(33)	140	(289)	Income tax	na	na	na	115	216
Equity & invest. income	0	0	0	0	0	Equity & invest. income					
Minority interests	0	0	(0)	0	0	Minority interests					
Extraordinary items	(2,912)	(3,449)	3,431	316	(1,290)	Extraordinary items	na	na	na	0	0
Net profit	(4,724)	(4,050)	3,114	359	(1,013)	Net profit	na	na	na	460	865
Normalized profit	(1,812)	(601)	(317)	44	278	Normalized profit	535	na	70	460	865
EPS (Bt)	(0.41)	(0.35)	0.27	0.03	(0.09)	EPS (Bt)	na	na	na	0.04	0.07
Normalized EPS (Bt)	(0.16)	(0.05)	(0.03)	0.00	0.02	Normalized EPS (Bt)	535	na	76	0.04	0.07

Balance Sheet (consolidated)						Financial Ratios					
Yr-end Dec (Bt m)	2Q22	3Q22	4Q22	1Q23	2Q23	(%)	2Q22	3Q22	4Q22	1Q23	2Q23
Cash & ST investment	1,326	1,456	798	1,707	1,272	Sales growth	173.8	2,732.6	440.5	408.6	272.9
A/C receivable	480	912	854	1,001	1,144	Operating profit growth	na	na	na	na	na
Inventory	265	281	401	274	270	EBITDA growth	na	na	na	na	na
Other current assets	2,405	2,536	3,184	3,727	4,759	Norm profit growth	na	na	na	na	na
Investment	0	0	0	0	0	Norm EPS growth	na	na	na	na	na
Fixed assets	4,310	4,235	4,185	4,178	4,120	Gross margin	(85.3)	(37.6)	8.1	13.0	9.9
Other assets	57,042	57,251	55,264	55,114	54,508	Operating margin	(99.2)	(46.1)	1.4	5.6	3.4
Total assets	65,827	66,671	64,686	66,001	66,074	EBITDA margin	(39.7)	(14.1)	18.3	19.9	15.9
S-T debt	2,764	3,483	3,321	3,188	3,598	Norm net margin	(67.3)	(12.5)	(3.8)	0.5	2.8
A/C payable	956	1,113	1,464	982	1,382	D/E (x)	0.8	1.6	0.9	0.8	1.0
Other current liabilities	15,759	18,303	17,109	18,916	18,609	Net D/E (x)	0.6	1.3	0.8	0.6	0.8
L-T debt	4,095	3,935	3,978	3,815	3,705	Interest coverage (x)	(1.9)	(1.1)	3.1	3.7	2.9
Other liabilities	33,489	35,122	30,860	30,786	31,479	Interest rate	30.7	35.0	26.3	27.6	30.7
Minority interest	0	0	0	0	0	Effective tax rate	42.2	78.2	9.5	76.3	2,545.3
Shareholders' equity	8,765	4,715	7,954	8,314	7,301	ROA	(10.9)	(3.6)	(1.9)	0.3	1.7
Working capital	(211)	80	(209)	293	32	ROE	(65.1)	(35.7)	(20.0)	2.2	14.2
Total debt	6,858	7,417	7,299	7,003	7,303						
Net debt	5,533	5,961	6,501	5,296	6,031						

Sources: Company data, Thanachart estimates

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