

Air Transportation Sector – Underweight

News update

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Positive sentiment but we are cautious

- **China–Japan tensions may divert Chinese tourists to Thailand...**
 - **... but we remain cautious about the extent of the impact.**
 - **At 31x PE in FY26F, AOT's share price looks priced in good news.**
 - **We maintain our BUY call on BA for its 6x PE in 2026F.**
- The share prices of the air transportation sector rose yesterday (+5.6% for AOT, +4.3% for BA, +4.4% for THAI, and +1.9% for AAV), which we believe was driven by improving sector sentiment and positive factors for some stocks.
 - The sector sentiment has improved as Thailand enters the high tourism season (4Q and 1Q). Tourist arrivals have also shown a narrowing decline, improving from -8% in 9M25 to -4% in October 2025. In addition, with rising tensions between China and Japan, Thai airlines expect some Chinese tourists to shift their travel plans from Japan to Thailand.
 - For AOT, the overhang from its negotiations with King Power (KP) over the reduction of the minimum guaranteed amount has eased, as, according to local newspaper, both parties have reached an agreement pending board approval on 26 November 2025. In addition, sentiment is supported by news that the Civil Aviation Board will meet early next month to consider passenger service charge (PSC) increases.
 - However, we remain cautious about the pace of Thailand's tourist arrival recovery. We assume a 3% y-y increase in 2026F, reflecting concerns that the baht's appreciation could weaken Thailand's price competitiveness, the Chinese government's push to promote domestic tourism, and rising competition from emerging destinations such as Vietnam.
 - We have a SELL call on AOT as the share price looks priced in good news already. Even though we expect the reduction in the duty-free minimum guaranteed amount at Suvarnabhumi Airport to Bt7bn (from Bt15bn when King Power won the concession in 2019) to be offset by the increases in international and domestic PSCs by Bt100 each starting April 2026F, driving its earnings recovery from -8% y-y in FY25F to +8% y-y in FY26F and +21% y-y in FY27F, its valuation is still expensive in our view with the share trading at 31x PE for FY26F and 26x for FY27F vs. the industry's average of 24x.
 - We have a SELL call on AAV as we expect it to be the most affected by the intensifying competition and slow recovery in Asian passengers. Its valuation is also demanding at 16x PE in 2026F vs. its peers of 12x.
 - We have a BUY call on BA for its monopolistic Samui routes to help cushion the impact from competition on other routes and cheap valuation at 6x PE in 2026F for its airline and airport-related businesses.
 - We put THAI's earnings and recommendation under review (from a SELL previously) as its share price is now falling below our TP.

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