

THAI AIRWAYS INTERNATIONAL PLC

No. 13/2013

7 March 2013

Company Rating: A+

Outlook: Stable

New Issue Rating: -

Rating History:

Date	Company	Issue (Secured/ Unsecured)
17/12/10	A+/Sta	-/A+
23/01/09	A/Sta	-/A
25/07/08	A+/Sta	-/A+
12/07/04	AA-/Sta	-/AA-
11/09/03	AA/-	-/AA-

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Rating Rationale

TRIS Rating affirms the company and senior debenture ratings of Thai Airways International PLC (THAI) at "A+". The ratings reflect THAI's leading position in international air routes of Thailand, plus the benefits from being a member of Star Alliance, the largest airline alliance in the world. However, these strengths are partially offset by its relatively high leverage and exposure to fuel price volatility, foreign exchange risk, and event risks, e.g., epidemics, natural disasters, and political unrest. In addition, intense competition from both premium- and low-cost carriers will continue to constrain the passenger yield (revenue per passenger-kilometer -- RPK) in the short to medium term.

The ratings are enhanced from THAI's stand-alone credit profile, reflecting the implied support from the government due to THAI's status as a state enterprise and the flag carrier of Thailand. Thus, the ratings will be lowered if the government shareholding falls below 50%. Currently, the Ministry of Finance (MOF) remains the major shareholder with a 51% shareholding while the Government Savings Bank (GSB) holds 2.1% of THAI's shares. THAI's shares of 15.5% held by the Vayupak Fund are considered as a private investment, although the Vayupak Fund was established by the MOF.

THAI is one of the largest airlines in Asia. At the end of December 2012, its international network comprised 63 international destinations with 619 flights per week. Capacity, measured as available seat kilometers (ASK), increased slightly by 1% to 79,231 million ASK in 2012. THAI's market position in international routes remained strong, though gradually declining. THAI's market share of international passenger traffic through the international airports in Thailand dropped from 34.1% in 2011 to 33.6% in 2012 due to the intense competition from legacy airlines, especially the Middle East airlines and other regional airlines. However, THAI's total international passengers increased by 3.9% to 13.2 million passengers in 2012.

For the domestic market, overall air traffic increased substantially since low-cost carriers (LCCs) started flying domestic routes in Thailand in 2003. The total market grew from 7.2 million passengers in 2003 to 15.4 million passengers in 2012. Despite the rise in the size of the market, the domestic market share of THAI has declined steadily, falling from 85% in 2003 to around 36% in 2011. However, THAI's total domestic passengers increased by 16.8% to 6.1 million passengers in 2012, which increased its market share to 39.8% in 2012. The domestic market contributes around 10% of its revenues. Due to its relatively high operating costs compared with LCCs, THAI had a clear strategy to improve profitability by reducing flights on some uneconomical domestic routes and letting its affiliated company, "Nok Air", service these routes. In addition, the company launched a new light premium airline "THAISmile" in mid-2012. THAISmile aims to serve middle-range customers. THAISmile was created to gain market share in the LCC segment in both domestic and regional markets.

THAI's cabin factor increased by 6.2% to 76.6% in 2012 due to the strong growth of the tourism industry and aggressive promotion campaign. Foreign tourist arrival increased by 16.8% to 20.3 million persons in 2012. However, the freight load factor declined from 56.2% in 2011 to 54.2% in 2012 impacted by the global economic slowdown.

In 2012, THAI's operating performance was revival from the previous year due to the higher number of tourists and stable jet fuel prices. However, fare price and

surcharge adjustment remained limited due to the intense competition. The adjusted operating income as a percentage of sales picked up from 9.9% in 2011 to 13.5% in 2012. The adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio also increased from 3.5 times in 2011 to 4.3 times in 2012. The adjusted funds from operations (FFO) to total debt ratio improved from 11.0% in 2011 to 15.5% in 2012. However, the adjusted debt to capitalization ratio stayed high at approximately 70% in 2011 and 2012. Financial leverage is expected to further increase in the medium term, considering the scheduled of financing plan for a number of new aircraft deliveries. In returns, the company will benefit from acquisition of new aircraft from greater efficiency, less fuel consumption, and maintenance expense reduction.

Rating Outlook

The “stable” outlook is based on the expectation that THAI will maintain its dominant position in international flights of Thailand. In addition, the company’s operating performance should not significantly deteriorate from the current level, as the company is making huge investments. The rating is also based on the expectation that government’s support will continue, particularly during adverse situations, since the government is the major shareholder.

Thai Airways International PLC (THAI)

Company Rating:	A+
Issue Ratings:	
THAI13OA: Bt2,556.79 million senior debentures due 2013	A+
THAI14OA: Bt3,000 million senior debentures due 2014	A+
THAI155A: Bt3,000 million senior debentures due 2015	A+
THAI165A: Bt2,000 million senior debentures due 2016	A+
THAI16DA: Bt2,000 million senior debentures due 2016	A+
THAI17OA: Bt4,000 million senior debentures due 2017	A+
THAI185A: Bt1,555 million senior debentures due 2018	A+
THAI185B: Bt1,445 million senior debentures due 2018	A+
THAI192A: Bt1,000 million senior debentures due 2019	A+
THAI19OA: Bt1,500 million senior debentures due 2019	A+
THAI215A: Bt833 million senior debentures due 2021	A+
THAI215B: Bt2,167 million senior debentures due 2021	A+
THAI222A: Bt2,000 million senior debentures due 2022	A+
THAI22OA: Bt1,500 million senior debentures due 2022	A+
THAI243A: Bt1,500 million senior debentures due 2024	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----				
	2012	2011	2010	2009	2008
Sales	209,123	190,997	180,589	161,603	200,118
Gross interest expense	5,836	5,656	5,166	5,738	5,485
Net income from operations	2,069	(6,657)	6,639	4,473	(8,241)
Funds from operations (FFO)	25,361	15,558	28,089	27,318	4,445
Capital expenditures	40,576	16,338	13,608	29,328	25,003
Total assets	304,096	273,956	296,070	271,694	259,535
Total debt	158,685	142,300	146,280	156,016	147,181
Total debt (operating lease adjusted)	167,190	144,723	149,033	158,255	153,558
Shareholders' equity	69,818	62,947	75,894	53,244	45,883
Operating income before depreciation and amortization as % of sales	13.5	9.7	17.2	19.0	5.5
Pretax return on permanent capital (%)	4.6	0.7	6.6	5.4	(2.1)
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.3	3.6	6.2	5.4	1.8
FFO/total debt (%)	15.5	11.0	19.1	17.6	4.4
Total debt/capitalization (%)	70.5	69.7	66.3	74.8	77.0

* Consolidated financial statements

Note: All ratios are operating leased adjusted ratios

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