

Press Release

No. 47/2015

9 April 2015

TRIS Rating Assigns "A+/Negative" Rating to Senior Unsecured Debt Worth Up to Bt7,000 Million of "THAI"

TRIS Rating has assigned the rating of "A+" to the proposed issue of up to Bt7,000 million in senior unsecured debentures of Thai Airways International PLC (THAI). At the same time, TRIS Rating has affirmed the company rating of THAI and the ratings of its existing senior unsecured debentures at "A+". The outlook remains "negative". The proceeds from the proposed debenture issue will be used in part to refinance THAI's maturing debt while the remainder will be reserved to fund its working capital needs. The ratings are enhanced from THAI's stand-alone credit profile, reflecting its status as a state enterprise and the flag carrier of Thailand. TRIS Rating views that the government has closely monitored THAI's restructuring plan and will provide strong support to THAI on a timely basis, especially if THAI encounter any financial difficulties. The ratings, however, are constrained by THAI's high leverage, weaker competitive position, high operating costs, and its vulnerability to event risks and fuel price fluctuations. The "negative" outlook reflects the intense competition in the industry and the deterioration in THAI's profitability. The ratings could be lowered if THAI's weak financial status persists or if the government reduces its support. The outlook could be revised to "stable" if the company can revive its operating margin and improve its debt service ability.

THAI is one of the largest airlines in Asia, operating a full service airline, and providing light premium airline service under the "THAISmile" brand through its wholly-owned subsidiary. In addition, the company holds a 39.2% stake in NOK Airlines PLC, a major low-cost carrier (LCC) in Thailand. At the end of March 2015, THAI's network spanned 66 international destinations served by 637 flights per week, and 10 domestic destinations with 371 flights per week.

THAI is a state enterprise, considering that the Ministry of Finance (MOF) owns 51% of the outstanding shares and Government Savings Bank (GSB) owns another 2.1%. Vayupak Fund holds 15.1% of THAI but this stake is considered as a private investment, despite the fact that Vayupak Fund was established by the MOF.

In 2014, foreign tourist arrivals to Thailand declined by 7% to 24.78 million persons due to the political instability. THAI's cabin factor was negatively impacted and decreased to 69% in 2014, compared with 74.1% in 2013. The drop resulted in substantial plunge in THAI's passenger traffic, which declined by 17.4%, and more aggressive competition from LCCs. However, judging from its past track record, the Thai tourism industry has recovered quickly from many unfavorable events. Although martial law remains in force, foreign tourist arrivals in the fourth quarter 2014 started to recover, rising by 7% year-on-year (y-o-y). In January 2015, foreign tourist arrivals continued to increase by 14% to 2.65 million persons. In the first quarter of 2015, THAI's cabin factor increased to 75.7% compared with 71.1% in the same period of previous year.

During the last five years, THAI's operating performance has gradually declined. THAI's operating margin dropped from 17.2% in 2010 to 9.6% in 2013, and to 3.3% in 2014. The deteriorating profitability was partly the result of domestic event risks, such as the flood disaster in 2011 and the ongoing series of political conflicts. In addition, THAI has relatively high operating costs, especially when compared to the LCCs. THAI also could hardly cut its costs. High fuel price and intensified competition also hamper its profitability. However, THAI's operating performance should improve this year as the tourism industry recovers and now that fuel prices have dropped substantially.

THAI's liquidity is weakening. The adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio declined from 2.9 times in 2013 to 0.7 times in 2014. The adjusted funds from operations (FFO) to total debt ratio weakened from 10.7% in 2013 to 2.2% in 2014. At the end of December 2014, the company had Bt23,347 million in cash on hand and a Bt6,600 million credit facilities. During the next 12 months, THAI has scheduled principal repayments of Bt22,146 million. TRIS Rating expects the company will manage to reserve more cushion for unexpected events. In addition, the government support is expected, which has enhanced THAI's credit quality.

THAI's leverage is high, continued increasing since 2011. Leverage is expected to remain high in the medium term. The adjusted debt to capitalization ratio increased from 66% in 2010 to over 70% in 2011-2013, and then rose to 84.4% in 2014. The increases were due to THAI's huge capital expenditure, mainly to acquire new aircraft fleet, and huge operating loss in the last two years. During 2011 through

(Continue on page 2)

2014, the company spent over Bt110 billion in capital expenditures. THAI received 47 aircraft during the last four years, 18 aircraft were funded by financial leases; the rest were under operating leases. The company is scheduled to receive another 22 aircraft during 2015-2018. The planned capital expenditures during the next four years will be around Bt80 billion. The investments are needed in order to improve the efficiency of the aircraft fleet. The new aircraft will yield several benefits, such as lower fuel consumption and reductions in maintenance expenditure. However, THAI's leverage level is higher than the current rating category. TRIS Rating expects that THAI should have a deleverage plan during the next two years.

A new government was appointed after the coup d'état in May 2014. The government has made it a priority to restructure seven loss-making state enterprises, including THAI. The State Enterprise Policy Commission (SEPO) was appointed and delegated to THAI's board of directors in order to help formulate the transformation plan. The transformation plan was completed and approved by THAI's board of directors and the SEPO in January 2015. The plan calls for reshaping THAI's organization and operational structure to improve its competitive position, operational efficiency, and profitability. The plan also includes a cost reduction program, early retirement program, the termination of loss-making routes, and plans to phase out the use of inefficient aircraft. TRIS Rating will closely monitor the progress and the achievement of the plan. THAI's credit ratings are heavily relied on the government's support in all aspects including extraordinary financial assistance. The ratings could be lowered if the expected improvement do not materialized or if the called for changes take more time to implement.

Thai Airways International PLC (THAI)

Company Rating:

A+

Issue Ratings:

THAI155A: Bt3,000 million senior unsecured debentures due 2015	A+
THAI165A: Bt2,000 million senior unsecured debentures due 2016	A+
THAI16DA: Bt2,000 million senior unsecured debentures due 2016	A+
THAI17OA: Bt4,000 million senior unsecured debentures due 2017	A+
THAI185A: Bt1,555 million senior unsecured debentures due 2018	A+
THAI185B: Bt1,445 million senior unsecured debentures due 2018	A+
THAI185C: Bt5,000 million senior unsecured debentures due 2018	A+
THAI188A: Bt1,250 million senior unsecured debentures due 2018	A+
THAI192A: Bt1,000 million senior unsecured debentures due 2019	A+
THAI192B: Bt1,200 million senior unsecured debentures due 2019	A+
THAI19OA: Bt1,500 million senior unsecured debentures due 2019	A+
THAI19DA: Bt1,230 million senior unsecured debentures due 2019	A+
THAI208A: Bt1,250 million senior unsecured debentures due 2020	A+
THAI212A: Bt1,000 million senior unsecured debentures due 2021	A+
THAI215A: Bt833 million senior unsecured debentures due 2021	A+
THAI215B: Bt2,167 million senior unsecured debentures due 2021	A+
THAI21DA: Bt1,340 million senior unsecured debentures due 2021	A+
THAI222A: Bt2,000 million senior unsecured debentures due 2022	A+
THAI22OA: Bt1,500 million senior unsecured debentures due 2022	A+
THAI238A: Bt1,500 million senior unsecured debentures due 2023	A+
THAI242A: Bt1,000 million senior unsecured debentures due 2024	A+
THAI243A: Bt1,500 million senior unsecured debentures due 2024	A+
THAI24DA: Bt1,430 million senior unsecured debentures due 2024	A+
Up to Bt7,000 million senior unsecured debentures due within 2025	A+

Rating Outlook:

Negative

TRIS Rating Co., Ltd./www.trisrating.com

Contact: santaya@trisrating.com, Tel: 0-2231-3011 ext 500/Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand

© Copyright 2015, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at <http://www.trisrating.com/en/rating-information/rating-criteria.html>.