

**EXCLUSIVE**

This Airbus A350 XWB is among 14 new planes procured by THAI to replace ageing aircraft and expand service. SOMCHAI POOMLARD

# THAI finance boss wrestles with forex

Narongchai Wongthanaivimok says a new currency strategy will improve efficiency, writes Busrin Treerapongpichit

**A**s finance and accounting are key aspects of Thai Airways International's business restructuring plan, the *Bangkok Post* sat down with THAI chief financial officer Narongchai Wongthanaivimok to discuss the state-mandated overhaul.

The flag carrier is tasked with accounting and financial improvements under a three-year plan for 2016-18.

Mr Narongchai named foreign exchange (forex) management as the most complicated issue facing the airline business.

"To improve cost efficiency and risk management regarding rapid changes of currencies against baht, we have to find the best strategy to manage our risk exposure from volatile foreign exchange," he said.

The airline generates revenue from 50 currencies the world over, and its debt and expenses are also paid in different currencies.

Mr Narongchai, who was appointed to the finance post one year ago, said THAI must look at debt/expenses and revenue as two different items.

The company's debt on the balance sheet stands at 182 billion baht, broken down as 30% in baht, 40% in euros, 20% in yen and 10% in US dollars.

On the revenue side, the carrier rakes in one-third in Thai baht, one-third in five major currencies (US dollars, euros, yen, yuan and Australian dollars) and the rest in other currencies.

The job facing the company is to manage foreign exchange hedging for revenue and debt at once.

THAI plans to refinance its US-dollar debt and convert it to currencies with a lower lending rate.

"The new thing I have learned from working at THAI is that the aviation business cannot borrow in dollar terms," Mr Narongchai said, adding that 40% of the company's costs are in US dollars but only 3% of total revenue is in the currency.

The upshot is that the company has to convert its revenue from many other currencies into US dollars.

"It doesn't make sense if we have to also repay debt in US dollars, since we have to pay for the conversion from any currencies we earned in to US dollars to pay for fuel already," Mr Narongchai said.

The new currencies under consideration for borrowing include the euro, offering a -0.5% rate, the yen (-0.6%) and the Swiss

franc (-0.6%).

Apart from changing the lending terms from dollars to other currencies, the company has also adopted a new hedging strategy that aims to cover all foreign exchange risk exposure through two types of hedging: foreign exchange debt and accounting.

Hedging of accounting essentially provides an offset to the mark-to-market movement of derivatives in the profit-and-loss account.

The hope is to put in place both hedging regimes by year-end.

"We aim to hedge all foreign exchange exposure in accounting and debt by the end of this year," Mr Narongchai said. "Once we have done that, the foreign exchange exposure in our balance sheet will be zero."

He pointed out that the big differences in the first and second quarters, stemming mainly from foreign exchange exposure, were an example of poor forex management.

THAI reported a forex loss of 100 million



**Narongchai: Borrowing in dollars on way out**

baht in the first half of 2016, compared with a gain of 5.9 billion in the same period a year earlier.

The carrier's funding plan includes 14 new aircraft: 12 Airbus A350-XWBs and two Boeing 787s.

Of the 14 aircraft, four are company purchases costing roughly 5 billion baht each.

The remaining 10 are under lease and costing the company about US\$1 million a month.

The first A350-XWB landed at Suvarnabhumi airport on Aug 31, and the second plane will arrive later this year. The other two deliveries are scheduled for 2017 and 2018.

Mr Narongchai said the planes buying was no problem because the company remains profitable in terms of earnings before interest, tax, depreciation and amortisation after deducting all the cost.

"If nothing happens to have a significant bad affect on the airline business, a 10 billion baht payment per year is not a problem," he said.

The company plans to borrow to finance new planes at 75-80% to par value.

"We have the ability to pay if we look at the size of the company, but the most important thing is how to manage the cost of finance and limit risk exposure, as well as the hedging position," Mr Narongchai said. "It is not an easy task, but I'm sure we can make it."