

ASIA AVIATION AAV TB

THAILAND / TRANSPORT & LOGISTICS

BUY

UNCHANGED

A safe flight in 2Q low season

- Expect a 2Q23 pretax core profit of THB255m, the first core profit in 2Q (low season) since 2Q17 thanks to strong ticket fares.
- Mild impact from excise tax hike, as it will be passed on to passengers; Chinese passenger recovery trend is positive.
- Maintain BUY with valuation based on 1.4x 2023E adjusted P/BV.

TARGET PRICE	THB3.70
CLOSE	THB2.58
UP/DOWNSIDE	+43.4%
PRIOR TP	THB3.70
CHANGE IN TP	UNCHANGED
TP vs CONSENSUS	+7.1%

KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Revenue	18,012	43,139	47,490	48,664
Net profit	(8,030)	1,284	1,644	1,836
EPS (THB)	(0.66)	0.10	0.13	0.14
vs Consensus (%)	-	56.3	(17.7)	(38.3)
EBITDA	(1,278)	9,376	9,792	10,062
Recurring net profit	(6,946)	1,284	1,644	1,836
Core EPS (THB)	(0.57)	0.10	0.13	0.14
Chg. In EPS est. (%)	nm	-	-	-
EPS growth (%)	nm	nm	28.0	11.7
Core P/E (x)	(4.5)	25.8	20.2	18.1
Dividend yield (%)	-	1.5	2.0	2.2
EV/EBITDA (x)	(58.2)	7.5	6.9	6.5
Price/book (x)	3.9	3.6	3.2	2.9
Net debt/Equity (%)	540.0	406.1	336.3	283.0
ROE (%)	(49.3)	14.9	16.8	16.8

Expect first core profit in 2Q for six years

Although AAV has booked a loss in every 2Q since 2Q17 due to the low season for Thai tourism, we expect it to book a core profit (before tax and FX loss) of THB0.26b in 2Q23, improving by 38% q-q from 0.18b in 1Q23. Key drivers are a strong 2Q23 load factor of 89% (vs 83% in 2Q19) and a projected average ticket fare of cTHB1,700 (exceeding pre-Covid level by 25%). We forecast revenue per ASK (RASK) to continue exceeding cost per ASK (CASK) for two consecutive quarters, and the gap should widen in 2H23 along with a passenger volume recovery.

Passing on excise taxes by lifting ticket fares

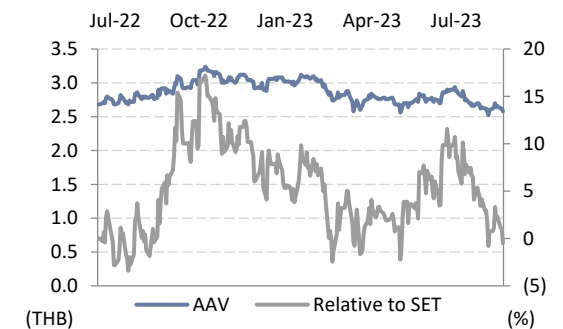
The Finance Ministry's Excise Department resumed collecting excise taxes on jet fuel for domestic flights on 1 July at a rate of THB4.726/litre (vs previous rate of THB0.2). We estimate it would impact AAV's bottom line by cTHB600m in 2H23. However, AAV will pass on costs to passengers by raising ticket fares by cTHB100 (8% compared to cTHB1,200 average ticket fare in 1H23). In addition, The Airlines Association of Thailand is negotiating with the Finance Ministry to set a new lower rate. Thus, we expect a minimal impact from the tax hike.

Strong demand, but availability of aircraft is a constraint

The Chinese tourist recovery is still promising. AAV has ramped up the flight capacity of its China routes from 67 flights/week in 1Q23 to 108 flights in 2Q23 (c77% vs 140 flights in 2019), with a load factor of 75% and ticket fares of cTHB3,000 (vs cTHB2,500 pre-Covid). The momentum should continue in 3Q23. On a negative note, operating aircraft have remained flat at 45 in 1Q-2Q23, as there is a delay for nine idle aircraft to resume operating due to a bottleneck at MRO facilities. This may slow AAV's recovery despite high demand from Chinese tourists. AAV is considering leasing more aircraft from AirAsia Group to solve the issue.

Buying opportunity to capture peak season of Chinese tourists

We maintain our forecast and our TP of THB3.7. AAV's share price has fallen by 5% over the last month amid concerns over the excise tax hike and slower-than-expected Chinese tourist recovery. We see this as a buying opportunity to capture the strong Chinese tourist recovery, especially in 4Q23 (Golden Week) and 1Q24 (Chinese New Year).



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(4.4)	(0.8)	(1.5)
Relative to country (%)	(6.9)	0.5	0.3
Mkt cap (USD m)	916		
3m avg. daily turnover (USD m)	2.3		
Free float (%)	38		
Major shareholder	AirAsia Aviation Limited (43%)		
12m high/low (THB)	3.30/2.50		
Issued shares (m)	12,164.29		

Sources: Bloomberg consensus; FSSIA estimates



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Investment thesis

We believe AAV is on track for a recovery and expect its passenger volume to recover in 2023. AAV should continue to gain more market share in the domestic market following a faster capacity ramp-up than its peers. Meanwhile, AAV should be able to capture the strong pent-up demand from Chinese tourists after China's borders reopen.

We also expect that its cost structure from 2022 onward will be able to support its operational turnaround, especially its staff costs. AAV has reduced its headcount over the past two years along with aircraft lease payments, as it has negotiated with lessors to restructure lease contracts.

AAV started to collect fuel surcharges for both domestic and international routes in 2022. This should drive ticket fares to exceed the pre-Covid level and offset rising fuel prices.

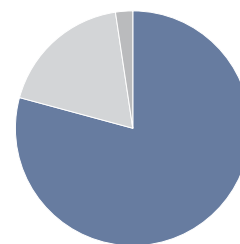
Company profile

AAV owns 100% of Thai AirAsia (TAA, not listed), which is the leading low-cost carrier in Thailand. TAA serves travellers throughout Asia, the Middle East and Europe.

www.aavplc.com

Principal activities (revenue, 2022)

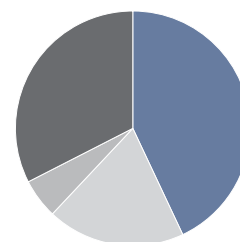
- Ticket sales - 79.2 %
- Ancillaries - 18.4 %
- Other revenue - 2.4 %



Source: Asia Aviation

Major shareholders

- AirAsia Aviation Limited - 43.0 %
- Mr. Tassapon Bijleveld - 19.0 %
- Thai NVDR - 5.5 %
- Others - 32.5 %



Source: Asia Aviation

Catalysts

Key potential growth drivers include: 1) a higher number of passengers carried following a global tourism recovery; 2) lower jet fuel prices; and 3) strong pent-up demand from Chinese tourists.

Risks to our call

Downside risks to our P/BV-multiple target price include 1) extraordinary events such as political turmoil and natural disasters; 2) higher-than-expected fuel expenses following an increase in oil prices; and 3) the slower-than-expected recovery of international tourist numbers.

Event calendar

Date	Event
Aug 2023	2Q23 results announcement

Key assumptions

	2023E	2024E	2025E
Number of aircraft (no.)	54	54	54
Pax carried (m)	20	22	22
Load factor (%)	87	87	87
Average ticket fare (THB)	1,721	1,755	1,773
Ancillaries per pax (THB/pax)	370	377	389
Fuel price net hedging (USD/bbl)	128	123	123

Source: FSSIA estimates

Earnings sensitivity

- For every 1% increase in load factor, we project a 2023 profit increase of 17% and vice versa, all else being equal.
- For every 1% increase in average ticket fare, we project a 2023 profit increase of 12% and vice versa, all else being equal
- For every 1% increase in Brent spot price, we project a 2023 profit reduction of 5% and vice versa, all else being equal.

Source: FSSIA estimates

2Q23 results preview

Despite 2Q being the low tourism season, 2Q23 passenger volume was flat q-q at 4.6m, accounting for 83% of the pre-Covid level (vs 78% in 1Q23), with domestic and international passenger numbers recovering to 86% and 80% of pre-Covid, respectively. Seat capacity recovered to 77% of pre-Covid in 2Q23, with a strong load factor of 89% (vs 83% in 2Q19). We estimate the average ticket fare to increase by 9% q-q to cTHB1,700 in 2Q23, exceeding the pre-Covid level by 25%.

Overall, we forecast revenue to grow 9% q-q in 2Q23. Fuel expenses should grow by 7% q-q following higher available seat kilometres (ASK), while non-fuel expenses should increase by 10% q-q. Thus, we forecast a pretax core profit of THB0.26b in 2Q23 (vs a THB1.2b loss in 2Q17) – the first 2Q core profit since 2Q17.

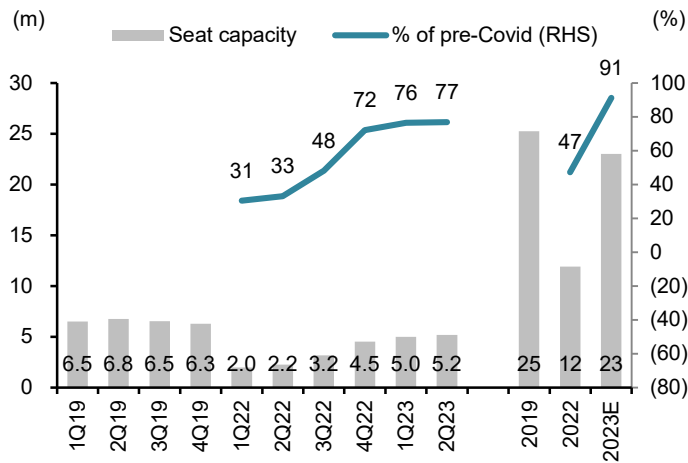
On a negative note, AAV should book a cTHB1.2b FX loss on its lease liabilities due to the depreciation of the THB against USD, resulting in a net loss (after tax) of THB0.7b.

Exhibit 1: 2Q23 results preview

	2Q22	3Q22	4Q22	1Q23	2Q23E	Change		2023E
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q %)	(y-y %)	(THB m)
Sales	2,747	4,878	8,507	9,252	10,080	9	267	43,139
- Passenger revenue	2,213	3,868	6,709	7,283	8,046	10	264	34,448
- Other revenue	534	1,010	1,798	1,969	2,034	3	281	8,691
Expense	(5,396)	(7,018)	(8,275)	(8,581)	(9,338)	9	73	(39,390)
- Fuel and oil	(1,557)	(2,490)	(3,369)	(3,190)	(3,399)	7	118	(17,871)
- Non-fuel operating expenses	(3,839)	(4,528)	(4,905)	(5,391)	(5,939)	10	55	(21,520)
Operating profit	(2,649)	(2,140)	232	671	742	11	128	3,749
Interest income	8	7	8	7	7	0	(14)	4
Interest expense	(552)	(625)	(484)	(494)	(494)	0	(11)	(2,147)
Pretax profit	(3,193)	(2,758)	(244)	184	255	38	108	1,606
Income Tax	841	1,578	(690)	(140)	248	(276)	(71)	(321)
Core profit (TAA)	(2,352)	(1,180)	(934)	44	503	1,049	121	1,284
Core profit (AAV)	(2,352)	(1,180)	(934)	44	503	1,049	121	1,284
Extraordinaries	(2,372)	(2,870)	4,048	316	(1,239)	(492)	(48)	0
- FX gain (loss)	(2,399)	(2,885)	3,712	563	(1,239)			0
- Derivative gain (loss)	27	15	(81)	(10)	0			0
- Others	0	0	417	(237)	0			0
Reported net profit (TAA)	(4,724)	(4,050)	3,114	359	(736)	(305)	84	1,284
Minority interest	0	0	0	0	0			0
Reported net profit (AAV)	(4,724)	(4,050)	3,114	359	(736)	(305)	84	1,284
Shares out (end Q, m)	9,879	9,879	9,879	9,879	9,879	0	0	12,850
Core EPS	(0.24)	(0.12)	(0.09)	0.00	0.05	1,049	121	0.10
EPS	(0.48)	(0.41)	0.32	0.04	(0.07)	(305)	84	0.10
Depreciation	(1,603)	(1,541)	(1,395)	(1,307)	(1,346)	3	(16)	(5,628)
EBITDA	(1,046)	(599)	1,627	1,978	2,088	6	300	9,376
Key ratios	(%)	(%)	(%)	(%)	(%)	(ppt)	(ppt)	(%)
Operating profit margin	(96)	(44)	3	7	7	0	104	9
EBITDA margin	(38)	(12)	19	21	21	(1)	59	22
Net profit margin	(172)	(83)	37	4	(7)	(11)	165	3
Operating stats						0	0	
Passengers carried (m)	1.7	2.8	4.1	4.6	4.6			
Load factor (%)	75	87	90	92	89			
RPK (m seats-km)	1,363	2,478	3,774	4,417	5,148			
ASK (m seats-km)	1,811	2,863	4,246	4,895	5,940			
Average fare (THB)	1,317	1,404	1,652	1,590	1,733			
RASK (THB)	1.5	1.7	2.0	1.9	1.7			
CASK (THB)	3.2	2.6	2.0	1.8	1.7			
CASK ex-fuel (THB)	2.3	1.8	1.2	1.2	1.1			
Fuel cost per ASK (THB)	0.9	0.9	0.8	0.7	0.6			

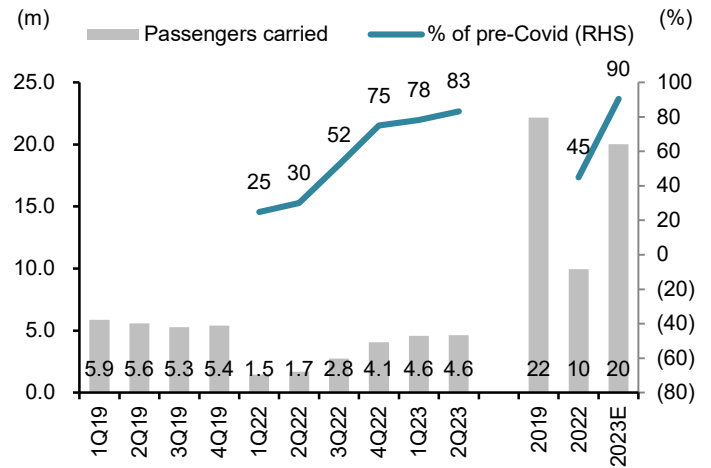
Source: AAV; FSSIA estimates

Exhibit 2: Seat capacity



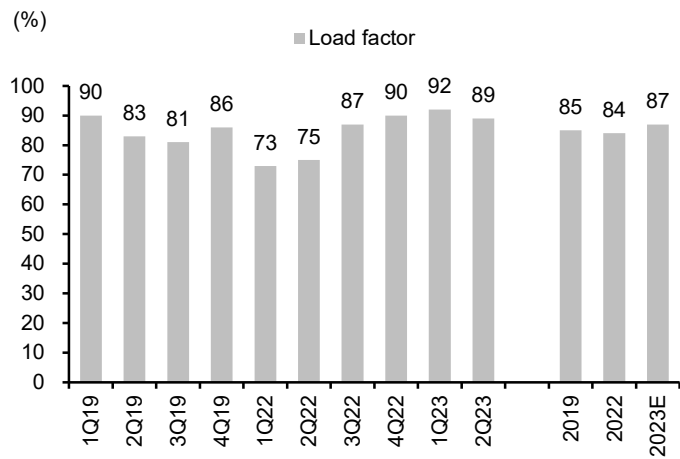
Source: AAV

Exhibit 3: Passengers carried



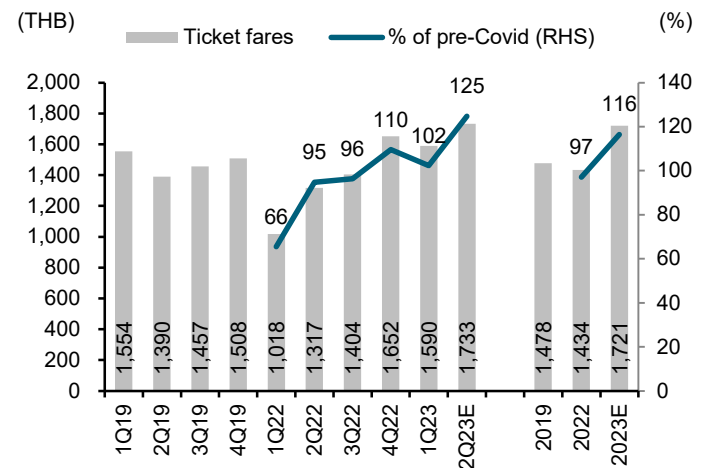
Source: AAV

Exhibit 4: Load factor



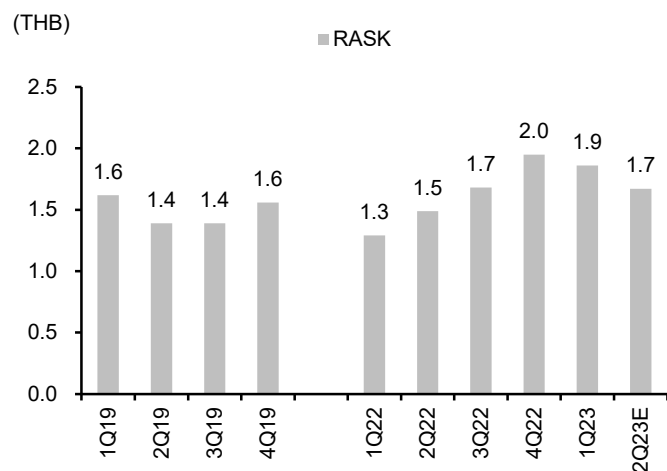
Source: AAV

Exhibit 5: Average ticket fare



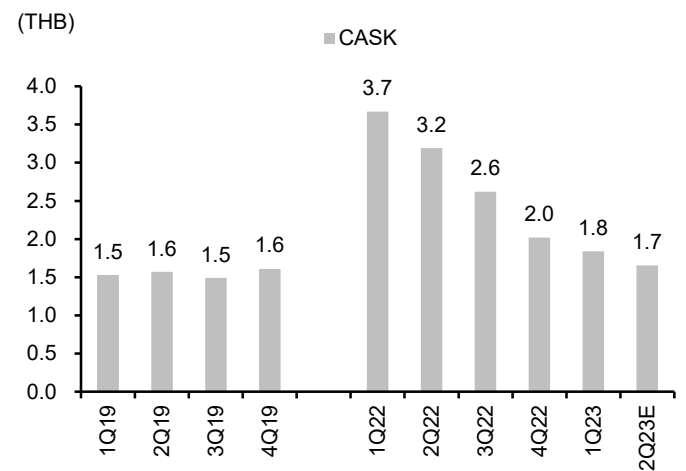
Source: AAV

Exhibit 6: RASK



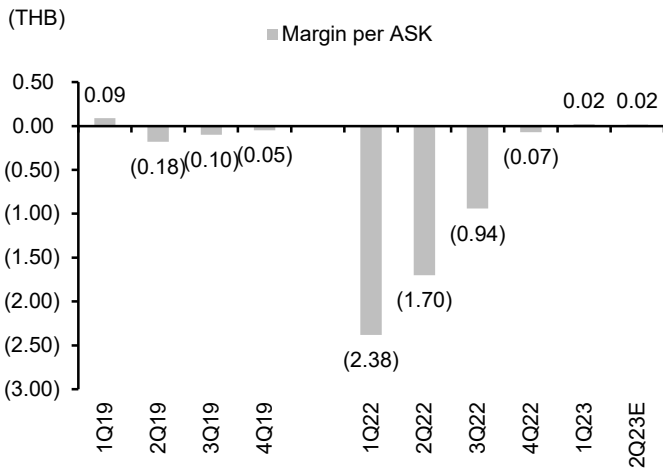
Source: AAV; FSSIA estimates

Exhibit 7: CASK



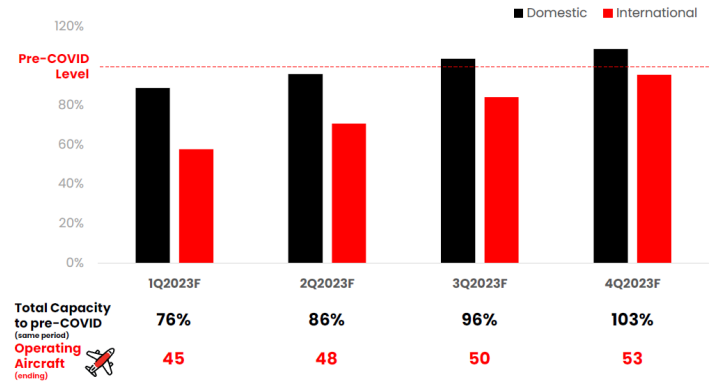
Source: AAV; FSSIA estimates

Exhibit 8: Margin per ASK (RASK-CASK)



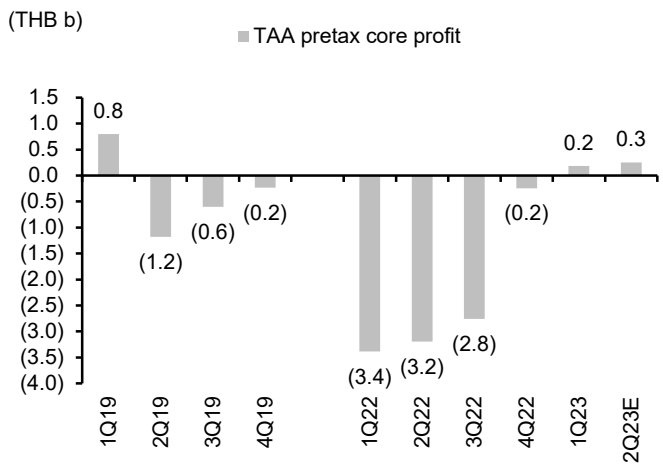
Source: AAV; FSSIA estimates

Exhibit 9: Capacity deployment plan



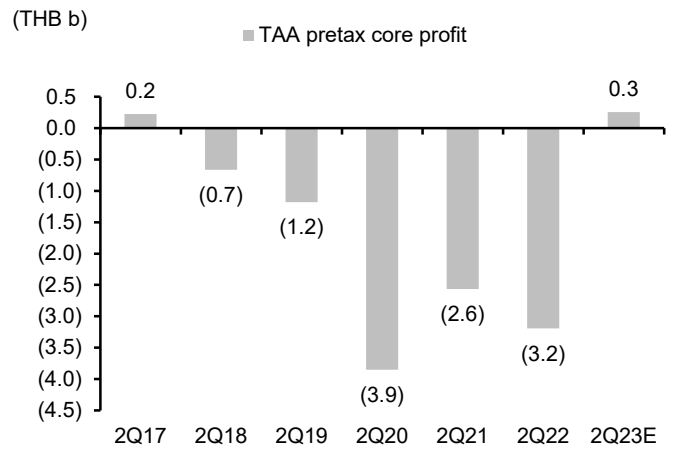
Source: AAV; FSSIA estimates

Exhibit 10: Thai AirAsia (TAA) pretax core profit



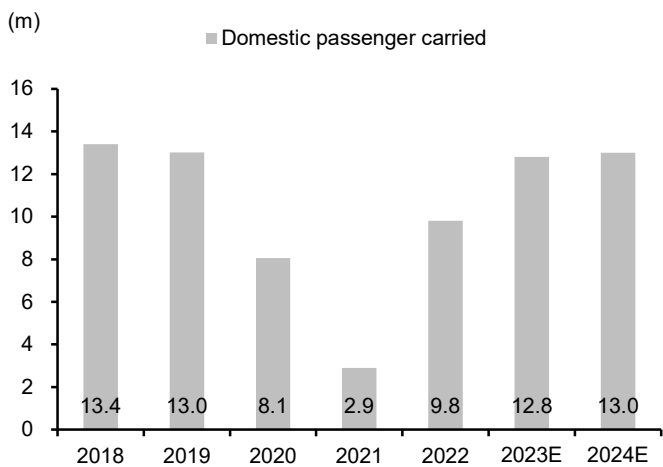
Sources: AAV; FSSIA estimates

Exhibit 11: 2Q Thai AirAsia (TAA) pretax core profit, 2017-23



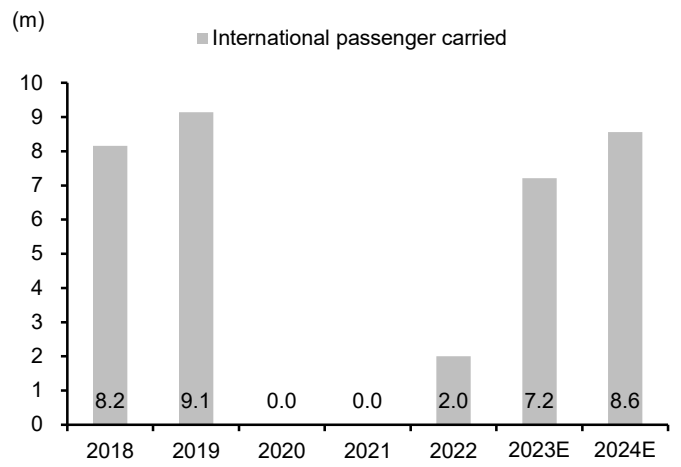
Sources: AAV; FSSIA estimates

Exhibit 12: Domestic passengers carried



Sources: AAV; FSSIA estimates

Exhibit 13: International passengers carried



Sources: AAV; FSSIA estimates

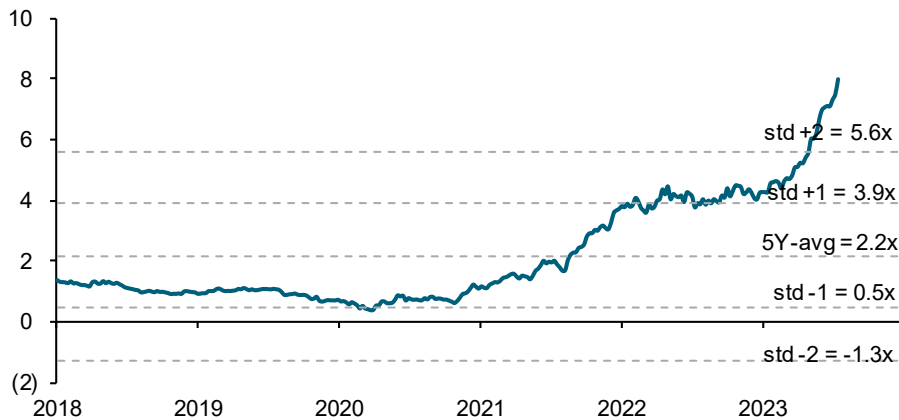
Exhibit 14: P/BV valuation table

Valuation estimate	(THB b)	(THB/share)	Comments
Book value	9.2	0.7	At end-2023E
One-off loss	24.9	1.9	Core loss over 2020-22
Adjusted book value	34.2	2.7	Adding back a one-off core loss
Target price		3.7	Pegged at 1.4x P/BV

Source: FSSIA estimates

Exhibit 15: Rolling one-year forward P/BV band

AAV PBV (x)



Sources: Bloomberg; FSSIA estimates

Exhibit 16: Peer comparisons, airline sector as of 26 July 2023

Company	BBG	Rec	--- Share price ---		Up side (%)	Market cap (USD m)	----- PE -----			---- PBV ----		--- EV/ EBITDA ---	
			Current (LCY)	Target (LCY)			23E (x)	24E (x)	25E (x)	23E (x)	24E (x)	23E (x)	24E (x)
Thailand													
Bangkok Airways	BA TB	BUY	14.30	20.00	39.9	877	22.0	17.8	16.1	1.7	1.6	19.0	17.7
Asia Aviation	AAV TB	BUY	2.58	3.70	43.4	916	25.8	20.2	18.1	3.6	3.2	7.5	6.9
Thailand average						1,793	23.9	19.0	17.1	2.6	2.4	13.3	12.3
Regional													
Spring Airlines Co Ltd-A	601021 CH	n/a	60.81	n/a	n/a	8,307	30.5	18.1	18.1	3.8	3.1	17.4	11.9
Interglobe Aviation	INDIGO IN	n/a	2,539.85	n/a	n/a	11,844	n/a	20.9	20.9	n/a	n/a	17.9	8.6
Cebu Air Inc	CEB PM	n/a	37.80	n/a	n/a	422	7.7	3.9	3.9	63.4	3.9	5.0	3.9
Singapore Airlines	SIA SP	n/a	7.53	n/a	n/a	16,912	11.2	9.9	9.9	1.4	1.4	5.7	5.7
Japan Airlines	9201 JP	n/a	3,062.00	n/a	n/a	9,586	47.1	17.9	17.9	1.6	1.5	7.6	5.9
Ana Holdings	9202 JP	n/a	3,380.00	n/a	n/a	11,726	26.8	17.0	17.0	1.9	1.7	8.1	6.8
Cathay Pacific Airways	293 HK	n/a	8.63	n/a	n/a	7,217	10.1	14.6	14.6	1.1	1.0	5.5	6.2
Vietjet Aviation	VJC VN	n/a	96,500	n/a	n/a	2,213	59.0	28.2	28.2	3.3	2.8	31.8	19.4
Regional average						68,227	27.5	16.3	16.3	10.9	2.2	12.4	8.5
Global													
Eva Airways	2618 TT	n/a	37.10	n/a	n/a	6,499	10.1	15.3	15.3	2.0	1.9	4.4	5.5
Air New Zealand	AIR NZ	n/a	0.79	n/a	n/a	1,651	6.2	7.9	7.9	1.3	1.2	3.0	3.2
Air Arabia	AIRARABIA UH	n/a	2.69	n/a	n/a	3,418	9.8	10.3	10.3	1.6	1.5	5.6	5.5
Easyjet (UK)	EZJ LN	n/a	446.90	n/a	n/a	4,386	9.2	8.1	8.1	1.2	1.1	3.0	2.7
Gol Linhas Aereas Intel. (Brazil)	GOLL4 BS	n/a	10.29	n/a	n/a	909	9.0	4.5	4.5	n/a	n/a	5.7	4.8
JetBlue Airways (US, Latin AM)	JBLU	n/a	7.80	n/a	n/a	2,558	10.0	7.1	7.1	0.7	0.6	4.1	3.4
Norwegian Air Shuttle (Norway)	NWARF US	n/a	1.06	n/a	n/a	969	7.7	5.7	5.7	1.8	1.2	2.5	2.1
Southwest Airlines (US)	LUV US	n/a	36.26	n/a	n/a	21,577	13.5	9.5	9.5	1.9	1.6	5.2	4.0
Global average						41,967	9.4	8.5	8.5	1.5	1.3	4.2	3.9
Overall average						111,986	18.6	13.2	12.9	5.8	1.8	8.8	6.9

Sources: Bloomberg; FSSIA estimates

Financial Statements

Asia Aviation

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	4,117	18,012	43,139	47,490	48,664
Cost of goods sold	(11,469)	(23,693)	(36,716)	(40,287)	(41,115)
Gross profit	(7,352)	(5,681)	6,423	7,203	7,548
Other operating income	-	-	-	-	-
Operating costs	(1,236)	(1,711)	(2,675)	(3,039)	(3,114)
Operating EBITDA	(3,153)	(1,278)	9,376	9,792	10,062
Depreciation	(5,434)	(6,114)	(5,628)	(5,628)	(5,628)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	(8,587)	(7,392)	3,749	4,164	4,434
Net financing costs	(1,848)	(2,190)	(2,143)	(2,109)	(2,139)
Associates	0	0	0	0	0
Recurring non-operating income	0	0	0	0	0
Non-recurring items	(1,795)	(1,084)	0	0	0
Profit before tax	(12,231)	(10,666)	1,606	2,055	2,295
Tax	1,741	2,452	(321)	(411)	(459)
Profit after tax	(10,490)	(8,214)	1,284	1,644	1,836
Minority interests	5,310	184	0	0	0
Preferred dividends	-	-	-	-	-
Other items	(1,468)	-	-	-	-
Reported net profit	(6,647)	(8,030)	1,284	1,644	1,836
Non-recurring items & goodwill (net)	1,795	1,084	0	0	0
Recurring net profit	(4,853)	(6,946)	1,284	1,644	1,836
Per share (THB)					
Recurring EPS *	(0.49)	(0.57)	0.10	0.13	0.14
Reported EPS	(0.67)	(0.66)	0.10	0.13	0.14
DPS	0.00	0.00	0.04	0.05	0.06
Diluted shares (used to calculate per share data)	9,879	12,164	12,850	12,850	12,850
Growth					
Revenue (%)	(71.3)	337.5	139.5	10.1	2.5
Operating EBITDA (%)	nm	nm	nm	4.4	2.8
Operating EBIT (%)	nm	nm	nm	11.1	6.5
Recurring EPS (%)	nm	nm	nm	28.0	11.7
Reported EPS (%)	nm	nm	nm	28.0	11.7
Operating performance					
Gross margin inc. depreciation (%)	(178.6)	(31.5)	14.9	15.2	15.5
Gross margin exc. depreciation (%)	(46.6)	2.4	27.9	27.0	27.1
Operating EBITDA margin (%)	(76.6)	(7.1)	21.7	20.6	20.7
Operating EBIT margin (%)	(208.6)	(41.0)	8.7	8.8	9.1
Net margin (%)	(117.9)	(38.6)	3.0	3.5	3.8
Effective tax rate (%)	16.7	25.6	20.0	20.0	20.0
Dividend payout on recurring profit (%)	-	-	40.0	40.0	40.0
Interest cover (X)	(4.6)	(3.4)	1.7	2.0	2.1
Inventory days	14.2	6.6	3.8	2.8	2.9
Debtor days	122.3	25.4	7.2	6.6	6.4
Creditor days	87.4	34.3	16.3	14.7	15.3
Operating ROIC (%)	(21.3)	(18.9)	13.1	16.6	18.9
ROIC (%)	(12.3)	(10.1)	6.1	7.1	7.8
ROE (%)	(28.2)	(49.3)	14.9	16.8	16.8
ROA (%)	(12.4)	(8.1)	4.6	5.0	5.1
* Pre-exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Ticket sales	3,174	14,268	34,448	37,857	38,626
Ancillaries	651	3,319	7,406	8,139	8,468
Other revenue	292	426	1,285	1,494	1,569

Sources: Asia Aviation; FSSIA estimates

Financial Statements

Asia Aviation

Cash Flow (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Recurring net profit	(4,853)	(6,946)	1,284	1,644	1,836
Depreciation	5,434	6,114	5,628	5,628	5,628
Associates & minorities	-	-	-	-	-
Other non-cash items	(4,538)	(9,528)	0	0	0
Change in working capital	(1,117)	2,058	2,890	789	304
Cash flow from operations	(5,074)	(8,302)	9,802	8,061	7,767
Capex - maintenance	(3,885)	(31)	(4,359)	(4,903)	(4,914)
Capex - new investment	-	-	-	-	-
Net acquisitions & disposals	0	0	0	0	0
Other investments (net)	-	-	-	-	-
Cash flow from investing	(3,885)	(31)	(4,359)	(4,903)	(4,914)
Dividends paid	0	0	0	(514)	(658)
Equity finance	8,800	4,000	1,200	0	0
Debt finance	6,481	(1,384)	(1,500)	1,000	1,000
Other financing cash flows	(2,073)	1,155	(1,200)	0	0
Cash flow from financing	13,208	3,771	(1,500)	486	342
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	0	0	0	0
Net other adjustments	0	0	0	0	0
Movement in cash	4,249	(4,562)	3,943	3,644	3,195
Free cash flow to firm (FCFF)	(7,059.54)	(6,113.25)	7,590.35	5,293.05	5,037.95
Free cash flow to equity (FCFE)	(4,550.79)	(8,561.78)	2,742.86	4,158.04	3,853.01

Per share (THB)	2021	2022	2023E	2024E	2025E
FCFF per share	(0.58)	(0.50)	0.62	0.44	0.41
FCFE per share	(0.37)	(0.70)	0.23	0.34	0.32
Recurring cash flow per share	(0.40)	(0.85)	0.54	0.57	0.58

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	43,298	36,791	37,723	39,198	40,684
Less: Accumulated depreciation	(4,234)	(4,010)	(6,210)	(8,410)	(10,610)
Tangible fixed assets (net)	39,064	32,781	31,512	30,787	30,074
Intangible fixed assets (net)	23,688	23,684	23,684	23,684	23,684
Long-term financial assets	-	-	-	-	-
Invest. in associates & subsidiaries	0	0	0	0	0
Cash & equivalents	5,360	798	4,741	8,385	11,580
A/C receivable	1,658	854	854	854	854
Inventories	230	401	250	279	285
Other current assets	425	3,184	662	729	747
Current assets	7,673	5,236	6,506	10,246	13,466
Other assets	784	2,984	2,984	2,984	2,984
Total assets	71,208	64,686	64,687	67,702	70,208
Common equity	20,201	7,954	9,239	10,369	11,547
Minorities etc.	(3,372)	0	0	0	0
Total shareholders' equity	16,829	7,954	9,239	10,369	11,547
Long term debt	44,310	42,262	40,762	41,762	42,762
Other long-term liabilities	1,182	734	734	734	734
Long-term liabilities	45,492	42,997	41,497	42,497	43,497
A/C payable	1,841	1,464	1,319	1,471	1,506
Short term debt	829	1,493	1,493	1,493	1,493
Other current liabilities	6,216	10,778	11,139	11,873	12,166
Current liabilities	8,887	13,734	13,951	14,836	15,165
Total liabilities and shareholders' equity	71,208	64,686	64,687	67,702	70,208
Net working capital	(5,744)	(7,803)	(10,693)	(11,482)	(11,786)
Invested capital	57,791	51,646	47,488	45,974	44,956

* Includes convertibles and preferred stock which is being treated as debt

Per share (THB)	2021	2022	2023E	2024E	2025E
Book value per share	2.04	0.65	0.72	0.81	0.90
Tangible book value per share	(0.35)	(1.29)	(1.12)	(1.04)	(0.94)

Financial strength	2021	2022	2023E	2024E	2025E
Net debt/equity (%)	236.4	540.0	406.1	336.3	283.0
Net debt/total assets (%)	55.9	66.4	58.0	51.5	46.5
Current ratio (x)	0.9	0.4	0.5	0.7	0.9
CF interest cover (x)	(1.5)	(2.9)	2.3	3.0	2.8

Valuation	2021	2022	2023E	2024E	2025E
Recurring P/E (x) *	(5.3)	(4.5)	25.8	20.2	18.1
Recurring P/E @ target price (x) *	(7.5)	(6.5)	37.0	28.9	25.9
Reported P/E (x)	(3.8)	(3.9)	25.8	20.2	18.1
Dividend yield (%)	-	-	1.5	2.0	2.2
Price/book (x)	1.3	3.9	3.6	3.2	2.9
Price/tangible book (x)	(7.3)	(2.0)	(2.3)	(2.5)	(2.7)
EV/EBITDA (x) **	(19.6)	(58.2)	7.5	6.9	6.5
EV/EBITDA @ target price (x) **	(23.1)	(68.8)	9.1	8.4	8.0
EV/invested capital (x)	1.1	1.4	1.5	1.5	1.5

* Pre-exceptional, pre-goodwill and fully diluted ** EBITDA includes associate income and recurring non-operating income

Sources: Asia Aviation; FSSIA estimates

Public disclosures related to sustainable development evaluation of Thai listed companies

Rating regarding the sustainable development of Thai listed companies, both on the SET and MAI, are publicly available on the website of the Securities and Exchange Commission of Thailand (SEC). Currently, ratings available are 1) "**CG Score**" by the Thai Institute of Directors Association (Thai IOD); 2) "**AGM Checklist**" by the Thai Investors Association (TIA), a "**CAC certified member**" of the Thai Private Sector Collective Action Against Corruption (CAC); and 3) "**Sustainability Investment List (THSI)**" by the Stock Exchange of Thailand. The ratings are updated on an annual basis. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such ratings.

CG Score by the Thai Institute of Directors Association (Thai IOD)¹

The **CG Score** indicates corporate governance (CG) strength in the sustainable development of Thai listed companies. Annually, the Thai IOD, with support from the Stock Exchange of Thailand (SET), surveys and assesses the CG practices of companies and publishes the results on the [Thai IOD website](#) in a bid to promote and enhance the CG of Thai listed companies in order to promote compliance with international standards for better investment decisions. The results are from the perspective of a third party, not an evaluation of operations, as of the date appearing in the report, and may be changed after that date.

The **five underlying categories and weighting** used for the CG scoring in 2022 include the rights of shareholders and equitable treatment of shareholders (weight 25% combined), the role of stakeholders (25%), disclosure and transparency (15%), and board responsibilities (35%).

The CGR report rates CG in six categories: 5 for Excellent (score range 90-100), 4 for Very Good (score range 80-89), 3 for Good (Score range 70-79), 2 for Fair (score range 60-69), 1 for Pass (score range 60-69), and not rated (score below 50).

Corporate Governance Report Disclaimer

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of companies listed on the Stock Exchange of Thailand and the Market of Alternative Investment disclosed to the public and able to be accessed by a general public investor at [Thai IOD website](#). The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the data appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. KS does not confirm nor certify the accuracy of such survey result.

AGM Checklist by the Thai Investors Association (TIA)²

The "**AGM Checklist**" quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and the extent to which information is sufficiently disclosed and the level of its transparency. All the considered factors form important elements of two out of five the CG components. Annually, the TIA, with support from the SEC, leads the project to evaluate the quality of Annual General Meetings of Shareholders (AGMs) and to rate quality of the meetings.

The **Checklist** contains the minimum requirements under law that companies must comply with, or best practices according to international CG guidance. Representatives of the TIA will attend the meetings and perform the evaluation. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating of how voting rights can be exercised. The second assesses 1) the ease of attending meetings; 2) transparency and verifiability; and 3) openness for Q&A. The third involves the meeting minutes that should contain discussion issues, resolutions and voting results.

The results are classified into four categories: 5 for Excellent (score 100), 4 for Very Good (score 90-99), 3 for Fair (score 80-89), and not rated (score below 79).

CAC certified member by the Thai Private Sector Collective Action Against Corruption (CAC)³

A **CAC certified member** is a listed company whose Checklist satisfies the CAC Certification's criteria and is approved by the CAC Council. The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. Note that the CAC does not certify the behaviour of the employees nor whether the companies have engaged in bribery, and Certification is good for three years.

Companies deciding to become a CAC certified member **start with** by submitting a Declaration of Intent signed by the Chairman of the Board to kick off the 18-month deadline for companies to submit the CAC Checklist for Certification. The 18-month provision is for risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.

The checklist document will be reviewed by the CAC Certification Committee for adequate information and evidence. It is worth noting that the committee consists of nine professionals in business law, corporate governance, internal audit, financial audit and experienced representatives from certified members.

A passed Checklist will move on to the **CAC Council** for granting certification approvals. The CAC Council consists of twelve prominent individuals who are highly respected in professionalism and ethical achievements. Among them are former ministers, a former central bank governor, the former head of the Thai Listed Companies Association, Chairman of Anti-Corruption Organizations (Thailand), Chairman of Thai Institute of Directors, and reputable academic scholars.

Sustainability Investment (THSI)⁴ by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment (**THSI**) quantifies responsibility in **E**nvironmental, and **S**ocial issues, by managing business with transparency in **G**overnance. The THSI serves as another choice for investors who desire to adopt a responsible investment approach, according to the SET.

Annually, the SET will announce the voluntary participation of the company candidates which pass the preemptive criteria, and whose two key crucial conditions are met, i.e. no irregular trading of the board members and executives and a free float of >150 by the number of shareholders, and combined holding must >15% of paid-up capital. Some key disqualifying criteria include a CG score of below 70%; independent directors and free float violation; executives' wrongdoing related to CG, social and environmental impacts, equity in negative territory, and earnings in the red for more than three years in the last five years. To become eligible for THSI, the candidate must pass three indicators in data declaration: **E**conomic (CG, risk management, customer relation management, supply chain management, and innovation); **E**nvironmental (environmental management, eco-efficiency, and climate risk); **S**ocial (human rights, talent attraction, operational health & safety, community development, and stakeholder engagement); and the incorporation of ESG in business operations.

To be approved for THSI inclusion, verified data must be scored at a 50% minimum for each indicator, unless the company is a part of the Dow Jones Sustainability Indices⁵ (DJSI) during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality.

Note that, from the **THSI list**, the SET further developed a sustainability **SETTHSI Index** in June 2018 from selected THSI companies whose 1) market capitalisation > THB5b (~USD150b); 2) free float >20%; and 3) liquidity >0.5% of paid-up capital for at least 9 out of 12 months. The SETTHSI Index is a market capitalisation-weighted index, cap 5% quarterly weight at maximum, and no cap for number of stocks.

Sources: [SEC](#); [Thai IOD](#); [Thai CAC](#); [SET](#); FSSIA's compilation

Disclaimer:

¹ Thai Institute of Directors Association ([Thai IOD](#)) was established in December 1999 and is a membership organisation that strives to promote professionalism in directorship. The Thai IOD offers directors certification and professional development courses, provides a variety of seminars, forums and networking events, and conducts research on board governance issues and practices. Membership comprises board members from companies ranging from large publicly listed companies to small private firms.

² Thai Investors Association ([TIA](#)) was established in 1983 with a mission to promote investment knowledge and to protect the investment rights of Thai investors. In 2002, the association was appointed by the Securities and Exchange Commission (SEC) to represent individual shareholders. To obtain information for evaluation, the association recruits volunteer investors to join AGMs and score the meetings. Weightings for each meeting are at a 45:45:10 ratio. They have been applied since 2017 and subject to change.

³ Thai Private Sector Collective Action against Corruption ([CAC](#)) was founded in 2010 and is 100% privately funded. It is an initiative by the Thai private sector to take part in tackling corruption problems via collective action. The CAC promotes the implementation of effective anti-corruption policies in order to create a transparent business ecosystem by developing a unique certification program for large/medium/small companies to apply for and to control corruption risk systematically and efficiently. The CAC's operations are sponsored by the US-based Center for Private Enterprise (CIPE) and the UK Prosperity Fund.

⁴ Sustainability Investment List ([THSI](#)), created by the Stock Exchange of Thailand in 2015, comprises the listed companies that conduct sustainable business operations.

⁵ Dow Jones Sustainability Indices – [Wikipedia](#) – Launched in 1999, DJSI evaluates the sustainability performance of companies based on corporate economic, environmental, and social performance.

GENERAL DISCLAIMER

ANALYST(S) CERTIFICATION

Teerapol Udomvej, CFA FSS International Investment Advisory Securities Co., Ltd

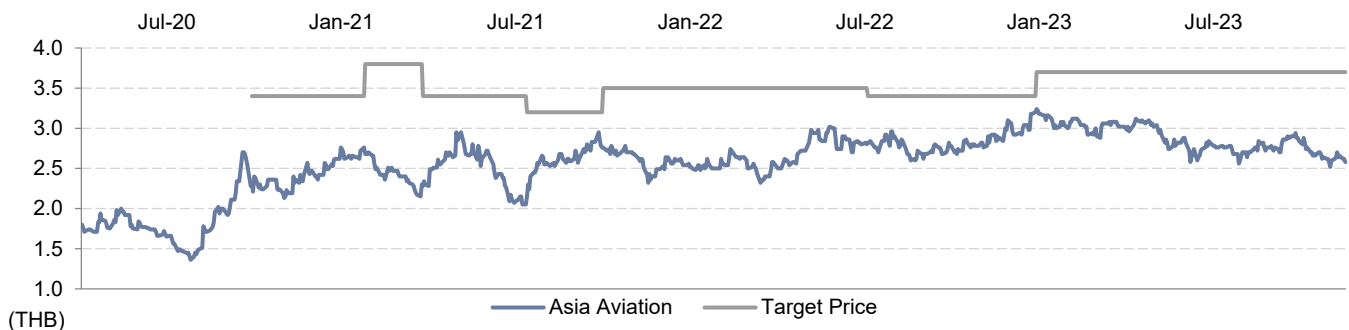
The individual(s) identified above certify(ies) that (i) all views expressed in this report accurately reflect the personal view of the analyst(s) with regard to any and all of the subject securities, companies or issuers mentioned in this report; and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein.

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History of change in investment rating and/or target price

Asia Aviation (AAV TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
21-Dec-2020	BUY	3.40	16-Aug-2021	BUY	3.20	31-Oct-2022	BUY	3.70
29-Mar-2021	BUY	3.80	21-Oct-2021	BUY	3.50			
18-May-2021	BUY	3.40	07-Jun-2022	BUY	3.40			

Teerapol Udomvej, CFA started covering this stock from 21-Dec-2020

Price and TP are in local currency

Source: FSSIA estimates

Bangkok Airways (BA TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
04-Jun-2021	BUY	10.00	01-Sep-2022	BUY	15.00	25-Jan-2023	BUY	18.00
25-Jun-2021	BUY	16.00	20-Oct-2022	BUY	15.60	22-May-2023	BUY	20.00

Teerapol Udomvej, CFA started covering this stock from 04-Jun-2021

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
Asia Aviation	AAV TB	THB 2.58	BUY	Downside risks to our P/BV multiple target price include 1) extraordinary events such as political turmoil and natural disasters; 2) higher-than-expected fuel expenses following an increase in oil prices; and 3) the slower-than-expected recovery of international tourist numbers.
Bangkok Airways	BA TB	THB 14.30	BUY	Downside risks to our SoTP-based TP include 1) extraordinary events such as political turmoil and natural disasters; 2) higher-than-expected fuel expenses following an increase in oil prices; and 3) the slower-than-expected recovery of international tourist numbers.

Source: FSSIA estimates

Additional Disclosures

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finansia Syrus Securities Public Company Limited

FSSIA may incorporate the recommendations and target prices of companies currently covered by FSS Research into equity research reports, denoted by an 'FSS' before the recommendation. FSS Research is part of Finansia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

All share prices are as at market close on 26-Jul-2023 unless otherwise stated.

RECOMMENDATION STRUCTURE

Stock ratings

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Industry Recommendations

Overweight. The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

Neutral. The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

Underweight. The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight (U). Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.