

Report type: Company Results

Company Overview

THAI is engaged in the aviation and related air transport businesses.

- THAI swung to a massive net loss of Bt6,195mn in 3QCY13 from a net profit in 3QCY12. The quarterly loss was 8.8% bigger than our forecast.
- Our forecast also suggests 4QCY13 results will be weaker than 4QCY12 on expectations that passenger yield will remain lower than a year ago and aircraft impairment charges will be booked in 4QCY13.
- We leave our CY13-14 estimates for THAI unchanged. In our view, third-quarter loss appears to have already been discounted into the share price. We reiterate a 'NEUTRAL' stance on THAI shares with a CY14 target price of Bt18.10/share.

What is the news?

THAI swung to a massive net loss of Bt6,195mn in 3QCY13 from a net profit of Bt1,744.66mn in 3QCY12. The quarterly loss was 8.8% bigger than our forecast as a result of larger-than-expected costs and SG&A expenses.

In this period, total operating revenue dropped 2.0% y-y. Passenger and excess baggage revenue slipped 1.48% y-y due to a change in NOK status from subsidiary to affiliate after its IPO. On an unconsolidated basis, THAI saw its revenue up 1.6% y-y. Passenger traffic rose by 6.7% y-y and cabin factor, the percentage of seats sold was 75.3% but average passenger yield dropped 4.5% y-y. Freight and mail revenue dropped 10.7% y-y. Costs and SG&A expenses edged up 6.5% and 15.1% y-y respectively. Interest expenses inched up. FX loss also widened sharply.

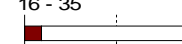
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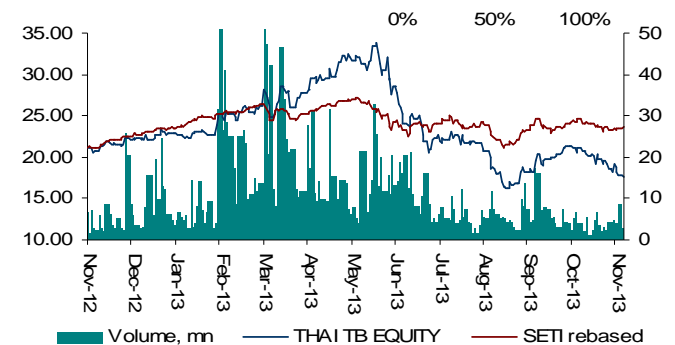
Our forecast suggests 4QCY13 results will be weaker than 4QCY12 on expectations that passenger yield will remain lower than a year ago and impairment charges for four aircrafts will be booked. Loss is expected to remain high in CY13 due largely to aircraft impairment charges.

Investment Actions?

In our view, third-quarter loss appears to have already been discounted into the share price. We reiterate a 'NEUTRAL' stance on THAI shares with a CY14 target price of Bt18.10/share based on a P/B multiple of 0.65x.

Thai Airways International

Rating	3.00	Neutral
- Previous Rating	3.00	Neutral
Target Price (Bt)	18.10	
- Previous Target Price (Bt)	18.10	
Closing Price (Bt)	17.70	
Expected Capital Gains (%)	2.3%	
Expected Dividend Yield (%)	0.0%	
Expected Total Return (%)	2.3%	
Raw Beta (Past 2yrs weekly data)	1.53	
Market Cap. (USD mn)	1,224	
Enterprise Value (USD mn)	5,912	
Market Cap. (Bt mn)	38,635	
Enterprise Value (Bt mn)	185,135	
3M Average Daily T/O (mn)	5.3	
52 week range	16 - 35	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. MOF	51.0
2. VAYU1	15.5
3. Thai NVDR Co., Ltd.	2.4

Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (Btmn)	190,997	209,123	206,463	222,535
Net Profit (Btmn)	(10,197)	6,229	(9,037)	901
EPS (Bt)	(4.67)	2.85	(4.14)	0.41
Net Profit, adj. (Btmn)	(8,199)	2,203	(3,098)	2,944
EPS, adj. (Bt)	(3.76)	1.01	(1.42)	1.35
P/E (X),adj.	(4.7)	17.5	(12.5)	13.1
BVPS (Bt)	29.06	31.99	27.39	27.80
P/B (X)	0.6	0.6	0.6	0.6
DPS (Bt)	0.00	0.50	0.00	0.00
Div. Yield (%)	-	2.82	-	-

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/B'14 (0.65x)

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Deeper-than-expected loss in 3QCY13

THAI swung to a massive net loss of Bt6,195mn in 3QCY13 from a net profit of Bt1,744.66mn in 3QCY12. The quarterly loss was 8.8% bigger than our forecast of Bt5,692mn as a result of larger-than-expected costs and SG&A expenses.

In this period, total operating revenue dropped 2.0% y-y to Bt50,679mn. Passenger and excess baggage revenue slipped 1.48% y-y due to a change in NOK status from subsidiary to affiliate after its IPO. On an unconsolidated basis, THAI saw its revenue up 1.6% y-y. Passenger traffic rose by 6.7% y-y and cabin factor, the percentage of seats sold was 75.3% but average passenger yield dropped 4.5% y-y due largely to promotional campaigns and the strength of the baht. Freight revenue dropped 10.7% y-y as freight traffic fell 9.0% y-y and average freight yield dipped 1.9% y-y in the face of fiercer competition and a stronger baht. Mail revenue and revenue from other activities jumped 11.0% and 12.4% y-y respectively. Costs edged up 6.5% y-y as other operating expenses shot up 46.9% y-y reflecting a Bt554mn reversal of provision for damages, fines and legal fees for anti-trust/competition law. Maintenance costs were up 10.6% y-y and fuel and oil expenses, the biggest component of costs, rose 5.2% y-y on account of growing consumption after addition of new aircrafts to fleet. SG&A expenses climbed 15.1% y-y due largely to a 46.8% jump in ad expenses in a bid to boost passenger numbers. Personnel expenses, the largest component of expenses, surged 14.1% y-y on pay increases in some departments, higher overtime pay and bonus provision. Impairment loss of assets declined 75.2% y-y. Interest expenses jumped 16.7% y-y on increased loans to pay for and lease new aircrafts. FX loss sharply widened to Bt2,900mn in 3QCY13 from Bt120mn in 3QCY12.

4QCY13 seen weaker than 4QCY12 but better than 3QCY13, possible aircraft impairment charges a cause for concern

In 4QTD, capacity, measured in ASK, continued to rise by 8%-9% thanks to further addition of new aircrafts to fleet. Passenger traffic, measured in RPK is also expected to keep rising as the fourth quarter is traditionally the peak season for air travel but the growth rate may be lower than ASK. For this reason, the airline's cabin factor would remain on the decline. Bookings also remain weak. As a result, 4QCY13 passenger yield is likely to be lower than the Bt2.77/RPK in 4QCY12 due to promotional campaigns and tougher competition. On this basis, 4QCY13 operating profit is expected to be lower than 4QCY12. The weakness of the Thai baht may also lead THAI to book more FX loss in 4QCY13. We also conservatively assume that THAI will book US\$100mn or US\$25 per aircraft in impairment charges for four aircrafts held for sale in 4QCY13.

On a full-year basis, we estimate THAI will post a net loss of Bt9,037mn on assumption that total operating revenue will come in at Bt206,463mn.

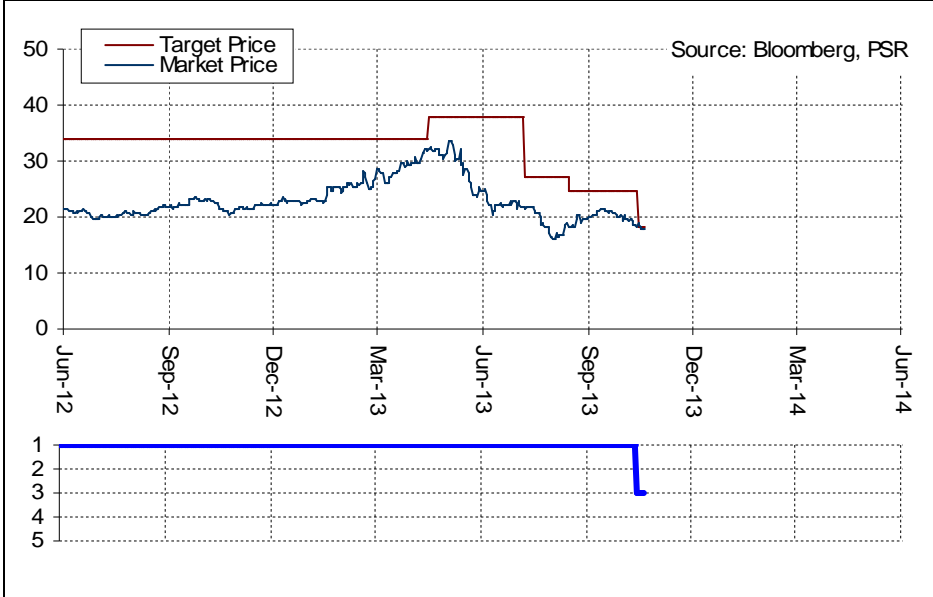
Looking ahead into CY14, we see improving prospects for THAI. We forecast THAI to return to a net profit of Bt901mn in CY14 on expectations that total operating revenue will rise further to Bt222,535mn as passenger yield is likely to be better than this year though it is unlikely to be as high as previously thought. The forecast assumes CY14 passenger yield of Bt2.79/RPK and cabin factor of 75%. Operating profit is estimated to be Bt2,944mn in CY14. Given the prospect of a weaker baht due to the likelihood of QE exit in the US and an improving economic outlook in Europe and Japan, more FX loss is also anticipated in CY14.

'NEUTRAL' stance with CY14 target price of Bt18.10/share

In our view, third-quarter loss appears to have already been discounted into the share price. THAI shares lost Bt0.90 to Bt17.80 after it reported a massive net loss in 3QCY13. We reiterate a 'NEUTRAL' stance on THAI shares with a CY14 target price of Bt18.10/ share based on a P/B multiple of 0.65x.

THAI (Bt mn)	3Q13	2Q13	3Q12	y-y +/-	q-q +/-	9M13	9M12
Total Revenues	50,679	47,093	51,714	-2.00%	7.62%	153,785	153,645
Passenger/excess baggage	42,455	38,792	43,092	-1.48%	9.44%	128,799	127,195
Freight	5,652	5,646	6,331	-10.72%	0.11%	17,147	19,309
Mail	226	258	204	11.00%	-12.19%	705	636
Other activities	2,346	2,398	2,087	12.39%	-2.16%	7,133	6,504
Total cost	39,393	36,985	37,007	6.45%	6.51%	115,006	113,134
Fuel and oil	20,130	18,453	19,139	5.18%	9.09%	58,897	59,144
Lease of aircraft/spare parts	1,159	1,189	1,158	0.04%	-2.54%	3,392	3,263
Flight operations	5,451	5,227	5,343	2.03%	4.29%	15,941	15,452
Depreciation	5,040	4,987	4,974	1.32%	1.06%	14,806	15,155
Other operating expenses	2,592	2,434	1,765	46.87%	6.53%	7,542	6,424
Gross profit	11,286	10,108	14,706	-23.26%	11.66%	38,779	40,510
SG&A	13,627	13,340	11,838	15.11%	2.15%	40,149	34,975
Operating profit	-2,340	-3,232	2,868	-181.59%	27.59%	-1,371	5,536
Other income	672	1,313	717	-6.26%	-48.82%	3,115	1,797
Other expense	87	1,404	353	-75.23%	-93.78%	3,860	666
Gain/loss from affiliate	179	166	212	-15.63%	7.52%	694	320
EBIT	-1,577	-3,157	3,445	-145.78%	50.05%	-1,422	6,987
Interest expense	1,661	1,523	1,423	16.71%	9.04%	4,593	4,341
Earning before tax	-3,238	-4,680	2,022	-260.16%	30.82%	-6,015	2,646
Finance cost	54	-457	44	23.18%	111.84%	-666	291
Earning after tax	-3,292	-4,224	1,978	-266.45%	22.06%	-5,350	2,355
Minority interest	13	13	113	-88.50%	2.63%	38	210
FX Gain/Loss	-2,890	-4,203	-120	-2300.94%	31.24%	-963	1,723
Net profit	-6,195	-8,439	1,745	-455.1%	26.59%	-6,351	3,868
EPS (Bt)	-2.84	-3.87	0.80	-455.1%	26.59%	-2.91	1.77
Gross profit margin	22.27%	21.46%	28.44%	-21.69%	3.76%	25.22%	26.37%
Operating profit margin	-4.62%	-6.86%	5.55%	-183.26%	32.72%	-0.89%	3.60%
Net profit margin	-12.22%	-17.92%	3.37%	-462.31%	31.79%	-4.13%	2.52%
Total Cost/sales and services	77.73%	78.54%	71.56%	8.62%	-1.03%	74.78%	73.63%
SG&A/Sales and services	26.89%	28.33%	22.89%	17.46%	-5.08%	26.11%	22.76%
Balance sheet (Bt mn)							
Assets	324,518	324,102	291,553	11.31%	0.13%	324,518	291,553
Liabilities	262,956	256,359	223,692	17.55%	2.57%	262,956	223,692
Paid up (m shrs) par Bt10	2,183	2,183	2,183	0.00%	0.00%	2,183	2,183
Equity	61,561	67,743	67,862	-9.28%	-9.12%	61,561	67,862
D/E (x)	4.27	3.78	3.30	29.58%	12.87%	4.27	3.30
Book value (Bt)	28.20	31.04	31.09	-9.28%	-9.12%	28.20	31.09

Ratings History



Phillip Group Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
> -20%	Sell	5

Remarks

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