

Airports of Thailand – AOT

Promising growth in flight & passenger numbers

Report type: Company Update

Company Overview

AOT's main business lines are managing, operating and developing airports. Currently, there are total six international airports; Suvarnabhumi, Don Mueang, Chiang Mai, Chiang Rai, Hat Yai and Phuket.

- Number of flights and passengers increased 10.07% and 8.48% y-y in the first two months of 2QFY12 following severe flooding in 1QFY12. The positive outlook is expected to continue in Mar.
- New PSC scheme is pending DCA's approval after AOT's board resolved to increase the PSC to Bt800 for international flight and Bt150 for domestic flight.
- We expect pre-FX profit to come out better than earlier forecast on lower depreciation charges and an upward revision in our estimates for number of flights and passengers, despite post-flood repairing expenses and an adjustment in deferred tax assets. We therefore revised our target price up to Bt54.25/share and upgrade our recommendation to 'NEUTRAL'.

What is the news?

Number of flights and passengers saw obvious growth track with an increase of 10.07% and 8.48% y-y over the first two months of 2QFY12. New PSC scheme is pending for a green light from the DCA, after AOT's board resolved to increase the fees.

How do we view this?

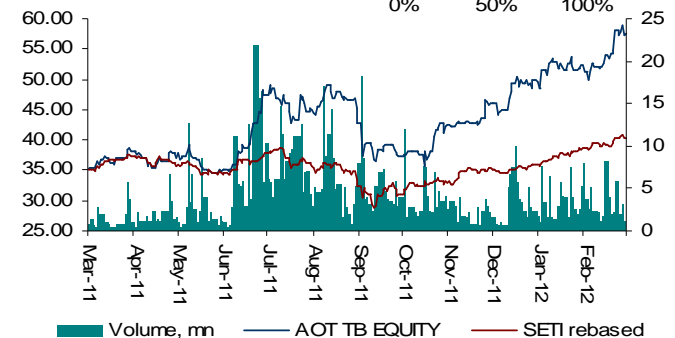
In our view, the increase in number of flights and passengers will definitely boost up AOT's revenue as well as earnings performance.

Investment Actions?

We upgrade our recommendation to 'NEUTRAL' with a target price of Bt54.25/share base on DCF valuation.

Airports of Thailand

Rating	3.00	Neutral
- Previous Rating	4.00	Trading Sell
Target Price (Bt)	54.25	
- Previous Target Price (Bt)	46.25	
Closing Price (Bt)	58.00	
Expected Capital Gains (%)	-6.5%	
Expected Dividend Yield (%)	3.8%	
Expected Total Return (%)	-2.6%	
Raw Beta (Past 2yrs w weekly data)	0.95	
Market Cap. (USD mm)	2,693	
Enterprise Value (USD mm)	3,874	
Market Cap. (Bt mm)	82,857	
Enterprise Value (Bt mm)	119,668	
3M Average Daily T/O (mm)	3.3	
52 week range	34.25 - 59.75	
Closing Price in 52 w week range		



Major Shareholders

	(%)
1. MOF	70.0
2. Nortrust Nominees Ltd.	4.8
3. State Street Bank and Trust CO. for Australia	1.9

Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (Btmn)	24,033	28,641	32,409	34,378
Net Profit (Btmn)	2,039	2,524	6,381	8,205
EPS (Bt)	1.43	1.77	4.47	5.74
Net Profit, adj. (Btmn)	1,905	5,030	7,581	8,205
EPS, adj. (Bt)	1.33	3.52	5.31	5.74
P/E (X),adj.	43.6	16.5	10.9	10.1
BVPS (Bt)	48.88	50.07	53.73	57.24
P/B (X)	1.2	1.2	1.1	1.0
DPS (Bt)	0.55	0.80	2.23	2.87
Div. Yield (%)	0.9	1.4	3.8	4.9

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/E12 (14x)

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1QFY12 profit jumped 36.95% y-y

AOT recorded a surge in 1QFY12 net profit by 36.95% y-y to Bt1,257.18mn thanks to lower depreciation charges.

Total revenue increased 4.12% y-y to Bt6,818.63mn as aeronautical and non-aeronautical revenue grew 4.28% and 3.88%, which was driven by an increase in number of flights and passengers by 7.53% and 0.44%. The relatively low growth stemmed from the inundation that hit Bangkok and its vicinity. Operating expenses declined 11.17% due to a 39.82% drop in IT system depreciation charges that have been fully depreciated. Other revenue grew considerably by 70.39% as interest revenue increased 97.49%. Interest expenses skyrocketed by 512.78% due partly to an adjustment of deferred tax assets valued Bt260mn as a result of the government's income tax reduction scheme.

Number of passengers and flights continued to grow during 2M of 2QFY12

Following the devastating flooding, the number of flights and passengers in the first two months of 2QFY12 has recovered favorably by 10.07% and 8.44% y-y to 81,514 flights and 13.01mn passengers, respectively. Around this period of time, it is also considered the nation's tourism's high season. During Mar 1-18, the number of flights and passengers at Bangkok's main Suvarnabhumi Airport increased 13.48% and 10.42% y-y, respectively. Such growth is expected to drive 2QFY12 performance to improve y-y. Meanwhile, operating expenses will be reduced in line with lower depreciation charges. In addition, remarkable FX-gains are expected to be realized as revenue in this quarter, considering the baht appreciation from Bt40.67 at end-1QFY12 to Bt36.78/100 Japanese Yen (as of Mar 22). We therefore estimate AOT to earn FX gains of no less than Bt1bn in 2QFY12.

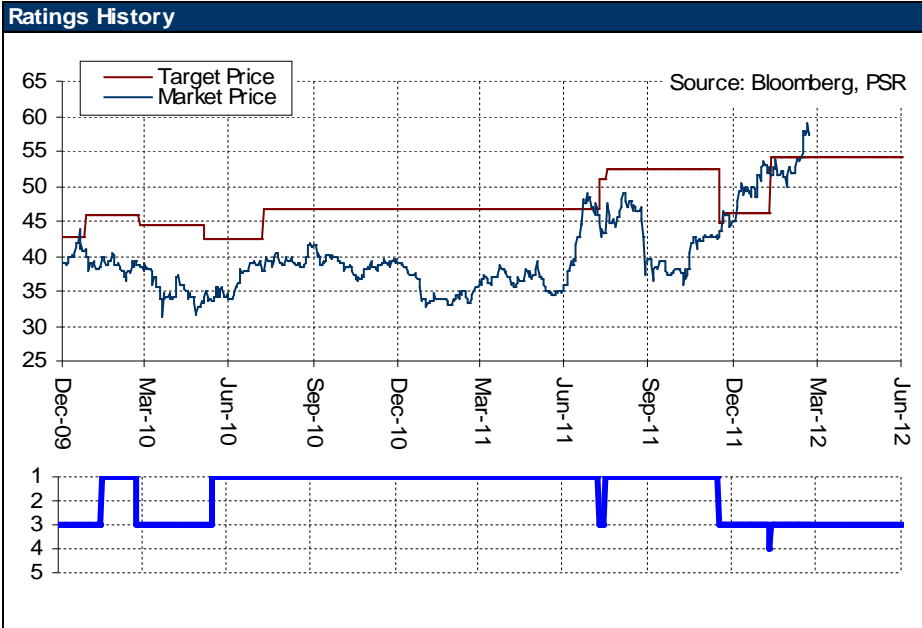
Increase in PSC awaiting approval

AOT's board already approved to increase passenger service charges for international flight from Bt700 to Bt800 and domestic flight from Bt100 to Bt150. The request has been submitted to the DCA (Department of Civil Aviation) whereby an approval process would take up to around 3-4 months. If the DCA approves the PSC increase, it is necessary to inform the airlines a year in advance before the new fee scheme will materialize. In the past, the DCA normally approved all the requests for PSC increases as the requested levels were far lower than the formulated highest level of Bt1,000 for international flight and Bt500 for domestic flight.

Number of flights and passengers assumption revised upward for FY12

In 5MFY12, number of flights and passengers grew 8.57% and 3.81% y-y. We are optimistic about the potential growth outlook during the remaining of the fiscal year. We therefore revised our estimates on number of flights and passengers up by 10% and 9.75%, respectively.

Depreciation charges are expected to decline by Bt2,596mn. There will also be post-flood repairing expenses for Don Muang Airport, which still remain uncertain whether the items will be booked into assets or expenses. Nonetheless, we conservatively estimated the Bt700mn amount to be booked as expenses into the P/L. In addition, the company may also book adjustment to deferred tax asset thereby increasing effective tax rate to 35%. Our pre-FX profit would be adjusted up to Bt6,381.41mn from Bt4,577.22mn on the back of a revenue increase to Bt32,409.44mn. Our target price is Bt54.25/share base on DCF valuation (assuming the new PSC rate to be effective in FY14, the target price will be Bt75.) Our rating has been upgraded to 'NEUTRAL'.



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

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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