



Thai Airways International

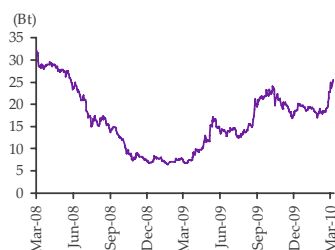
Neutral

Stock Data

Last close (Mar 9) (Bt)	25.25
Foreign price (Mar 9) (Bt)	24.20
12-m target price (Bt)	26.00
Mkt cap (Btbn)	42.90
Mkt cap (US\$mn)	1,312

Bloomberg code	THAI TB
Reuters code	THAI.BK
Risk rating	H
Mkt cap (%) SET	0.74
Sector % SET	2.87
Shares issued (mn)	1,699
Par value (Bt)	10
12-m high / low (Bt)	26 / 6.8
Avg. daily 6m (US\$mn)	5.08
Foreign limit / actual (%)	30 / 12
Free float (%)	31.8
Dividend policy (%)	≥ 25

Price Performance



Source: SET

Share performances

	1M	3M	12M
Absolute	37.2	34.3	271.3
Relative	32.4	30.8	196.6

Source: SET

TP raised but stay Neutral with cash call expected

- **Maintain Neutral, with raise in TP to Bt26** — We have revised our assumptions and raised earnings, which raise target price. However, using a base case scenario of a cash call of Bt20bn for the fleet replacement program, TP goes up to just Bt26, rather than the Bt38 without the cash call. We expect the broadened equity base to lessen expected ROE and thus lower our valuation on PBV multiple from 1.08x to 0.81x.
- **Upgrade in earnings aligned with guidance** — Projected earnings in 2010 and 2011 have been raised by 69% and 39% respectively, incorporating higher passenger load/yield and benefits from streamlined operations. Our earnings upgrade assumes higher effective tax rate returning in 2011 and 2012.
- **Valuation could be varied between Bt26-Bt32** — Our calculations indicate that a cash call of Bt10-20bn gives THAI a value of between Bt26-Bt32/share. We use as our base case scenario an addition of Bt20bn into its equity base, in view of its funding needs of Bt50bn over the next two years and the Bt150bn required in five years. Note that THAI has a net DE ceiling of 2x.
- **Indicators imply Bt6.6bn core profit in 1Q10** — We estimate 1Q10 core profit at Bt6.6bn, +13% QoQ, of which Bt700mn is from compensation paid by Airbus for the delay in delivery of the A330. Operating earnings are expected to improve upon sharp recovery in traffic (+8% QoQ mRPK) and yield (+3% QoQ to Bt2.79/mRPK). However, we anticipate a jump of Bt1bn QoQ in personnel expense back to Bt6.8bn, as it will begin accruing bonuses again after a reversal in 4Q09.

Forecasts and Valuation

FY Dec	08	09	10F	11F	12F
Core Profit (Btmn)	(8,192)	3,966	9,079	8,824	11,402
Net profit (Btmn)	(21,379)	7,343	11,079	8,824	11,402
Core EPS (Bt)	(4.82)	2.33	5.34	5.19	6.71
EPS (Bt)	(12.58)	4.32	6.52	5.19	6.71
EPS growth (%)	(589)	134	51	(20)	29
BVPS (Bt)	27.01	31.34	35.41	40.30	44.20
DPS (Bt)	-	0.25	1.63	1.30	1.30
ROE (%)	(14.38)	8.00	16.01	13.72	15.88
PER (x)	(2.01)	5.84	3.87	4.86	3.76
PBV (x)	0.93	0.81	0.71	0.63	0.57
Dividend yields (%)	-	0.99	6.45	5.14	5.14

Source: SCBS Investment Research

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Financial statement

Profit and Loss Statement (Btmn)

FY December 31	2008	2009	2010F	2011F	2012F
Total revenue	200,118	161,603	189,227	209,208	226,060
Cost of goods sold	206,780	152,659	174,285	195,485	207,699
Gross profit	-6,662	8,943	14,942	13,723	18,361
SG&A	0	0	0	0	0
Other income	2,488	1,534	1,800	1,800	1,800
Interest expense	5,485	5,738	5,824	4,518	3,916
Pre-tax profit	-10,347	4,739	10,818	10,905	16,145
Corporate tax	-2,285	691	1,839	2,181	4,844
Equity a/c profits	-65	-9	100	100	100
Minority interests	65	72	0	0	0
Core profit	-8,192	3,966	9,079	8,824	11,402
Extra-ordinary items	-13,187	3,376	2,000	0	0
Net Profit	-21,379	7,343	11,079	8,824	11,402
EBITDA	15,419	31,501	37,935	36,972	43,039
Core EPS (Bt)	(4.82)	2.33	5.34	5.19	6.71
Net EPS (Bt)	(12.58)	4.32	6.52	5.19	6.71
DPS (Bt)	0.00	0.25	1.63	1.30	1.30

Profit and Loss Statement (Btmn)

FY December 31	4Q08	1Q09	2Q09	3Q09	4Q09
Total revenue	41,310	40,683	34,362	38,848	47,709
Cost of goods sold	44,650	36,366	36,709	38,822	40,763
Gross profit	-3,340	4,318	-2,347	26	6,946
SG&A	0	0	0	0	0
Other income	427	587	267	298	382
Interest expense	1,478	1,449	1,423	1,424	1,442
Pre-tax profit	-4,653	3,455	-3,503	-1,099	5,886
Corporate tax	-2,102	177	92	154	269
Equity a/c profits	24	-1	31	-27	-12
Minority interests	12	18	17	19	17
Core profit	-2,538	3,259	-3,582	-1,299	5,589
Extra-ordinary items	-12,230	4,610	-1,822	-2,735	3,324
Net Profit	-14,768	7,869	-5,403	-4,035	8,912
EBITDA	1,965	9,978	3,091	5,681	12,750
Core EPS (Bt)	(1.49)	1.92	(2.11)	(0.76)	3.29
Net EPS (Bt)	(8.69)	4.63	(3.18)	(2.37)	5.25

Balance Sheet (Btmn)

FY December 31	2008	2009	2010F	2011F	2012F
Total current assets	42,182	47,288	55,920	55,484	57,304
Total fixed assets	217,353	224,406	221,005	204,456	209,248
Total assets	259,535	271,694	276,925	259,940	266,552
Total loans	147,181	156,016	150,488	121,540	118,685
Total current liabilities	98,583	80,452	82,507	79,570	80,494
Total long-term liabilities	115,070	137,999	134,256	111,897	110,965
Total liabilities	213,652	218,450	216,763	191,467	191,459
Paid-up capital	16,989	16,989	16,989	16,989	16,989
Total equity	45,882	53,244	60,162	68,473	75,094
BVPS (Bt)	27.01	31.34	35.41	40.30	44.20

Balance Sheet (Btmn)

FY December 31	4Q08	1Q09	2Q09	3Q09	4Q09
Total current assets	42,182	42,593	40,404	43,654	47,288
Total fixed assets	217,353	217,578	220,870	220,184	224,406
Total assets	259,535	260,171	261,274	263,838	271,694
Total loans	147,181	149,337	154,544	156,844	156,474
Total current liabilities	98,583	90,674	92,228	89,284	80,452
Total long-term liabilities	115,070	115,907	120,717	130,240	137,999
Total liabilities	213,652	206,582	212,945	219,524	218,450
Paid-up capital	16,989	16,989	16,989	16,989	16,989
Total equity	45,882	53,769	48,329	44,314	53,244
BVPS (Bt)	27.01	31.65	28.45	26.08	31.34

Cash Flow Statement (Btmn)

FY December 31	2008	2009	2010F	2011F	2012F
Core Profit	-8,192	3,966	9,079	8,824	11,402
Depreciation and amortization	20,281	21,023	21,293	21,549	22,978
Operating cash flow	7,682	32,781	32,372	30,373	34,380
Investing cash flow	-20,192	-14,472	-21,898	-2,974	-30,538
Financing cash flow	4,259	7,085	-5,953	-31,716	-5,058
Net cash flow	-8,251	25,394	4,520	-4,317	-1,216

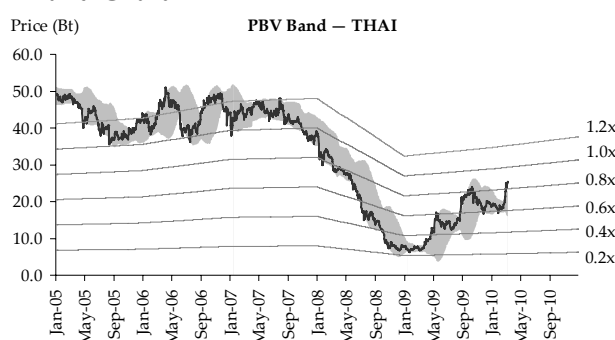
Main Assumptions

	2008	2009	2010F	2011F	2012F
Jet fuel price (US\$/bbl)	122	70	90	110	115
Cabin factor (RPK/ASK)	74.8	74.2	75.5	72.0	74.9
Traffic growth (%)	(8.5)	(6.7)	13.0	5.0	5.0
Passenger yield (Bt/RPK)	2.91	2.50	2.65	2.80	2.85

Key Financial Ratios

	2008	2009	2010F	2011F	2012F
Gross margin(%)	(3.3)	5.5	7.9	6.6	8.1
Operating margin(%)	(3.3)	5.5	7.9	6.6	8.1
EBITDA margin(%)	7.7	19.5	20.0	17.7	19.0
EBIT margin(%)	-2%	6%	9%	7%	9%
Net profit margin(%)	(10.7)	4.5	5.9	4.2	5.0
ROE (%)	(14.4)	8.0	16.0	13.7	15.9
ROA (%)	(3.0)	1.5	3.3	3.3	4.3
Net D/E (x)	3.0	2.7	2.2	1.5	1.4
Interest coverage (x)	2.8	5.5	6.5	8.2	11.0
Debt service coverage (x)	0.4	0.7	1.2	1.3	2.0
Payout Ratio (%)	0.0	5.8	25.0	25.0	19.3

PBV Band Chart

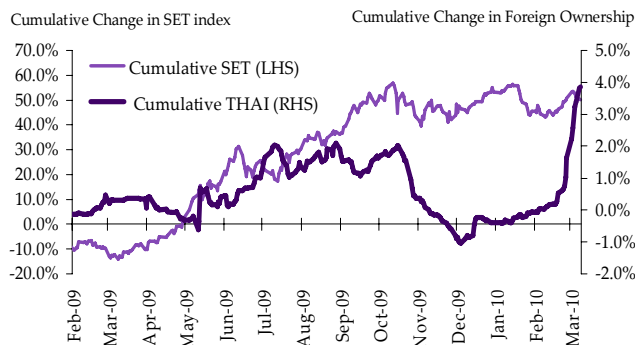


12-Month Cumulative directors trade

NA

Source: SEC

12 Month cumulative chg in foreign ownership versus cumulative chg in SET index



Source: SET

Post-dilution price could be Bt26-Bt32

Our sensitivity analysis, shown in Table 1, helps identify the share price that will make the cash call price the same as the post-dilution share price. As can be seen, with a cash call of Bt10-20bn, THAI should trade between Bt26-Bt32. Our PBV multiple is based on a long term ROE, 3-yr avg., and cost of equity of 14.3%

Table 1: Sensitivity analysis on different level of cash call

Gordon Growth Model	No cash call	Cash call			Explanation
		At Bt10bn	At Bt15bn	At Bt20bn	
Long-term ROE - 3yr average (10F-12F)	15.2%	13.1%	12.3%	11.6%	Fix earnings but varying equity base
PBV (ROE - growth)/(Ke - growth)	1.08x	0.92x	0.86x	0.81x	Input ROE to get PBV multiples
Breakeven point - PBV:ROE method					
Number of shares	1,699	1,999	2,199	2,499	No of shares varying @ BE point
BVPS (adj equity base)	35.4	35.1	34.2	32.1	Less BVPS on incremental share numbers
BE: post-dilution = cash call price	38	32	29	26	@ call price resulting in the same valuation

Source: SCBS Investment Research

Raising earnings

Despite an increase in fuel costs, assuming passenger load goes up and stays up and yield rises, THAI can still deliver profit growth in the medium term. We have made some changes to our forecast, as shown below.

Higher passenger load & yield restoration — We expect recovery in demand for leisure travel to materialize in 2010, raising passenger load as well as yield.

Non-fuel cost savings to maintain the cost to income ratio — We lower our non-fuel cost to income ratio to 61% from 62% estimated earlier. .

Note of higher tax rate in 2011. We assume that the tax shield from losses carried forward is used up and the resultant rise in rate is what mutes net profit growth in 2011 and 2012.

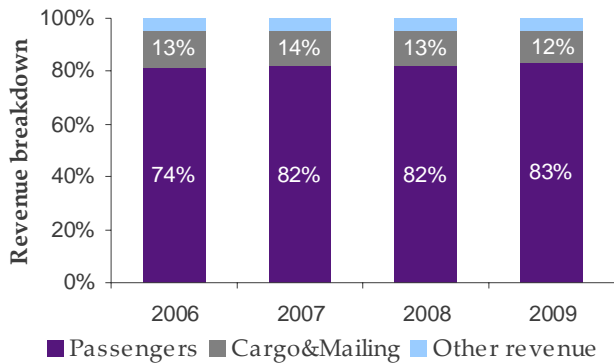
Table 2: Earnings revision

Passenger volume/RPK growth (%)	2008A	2009A	2010F	2011F
New	(8.5)	(6.7)	13.0	5.0
Old	(8.5)	(6.7)	9.5	7.5
% change	0%	0%	37%	-33%
OPEX/Inc (%), excluding fuel cost	2008A	2009A	2010F	2011F
New	59	65	61	57
Old	59	65	62	59
% change	0%	0%	-3%	-3%
Core EPS	2008A	2009A	2010F	2011F
New	-4.82	2.33	5.34	5.19
Old	-4.82	2.33	2.68	3.73
% change	0%	0%	99%	39%

Source: SCBS Investment Research

Chart 1: Revenue breakdown

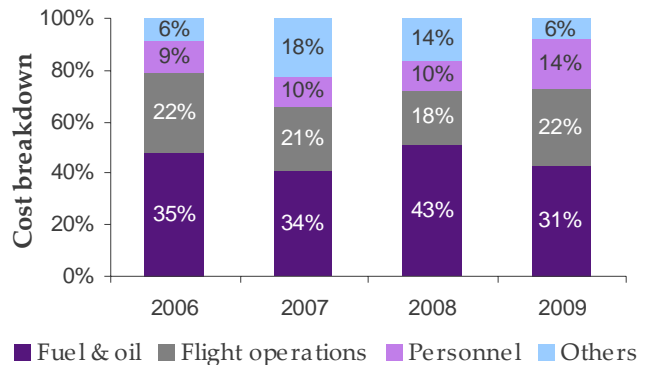
PLF is THAI's key revenue driver; this is less sensitive than Freight Load Factor (FLF).



Source: THAI, SCBS Investment Research

Chart 2: Cost breakdown

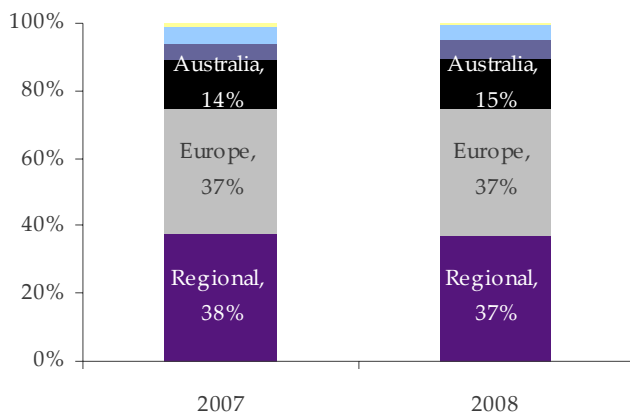
Fuel cost to income fell from 43% in 2008 to 31% in 2009, a key to earnings.



Source: THAI, SCBS Investment Research

Chart 3: Travel demand structure

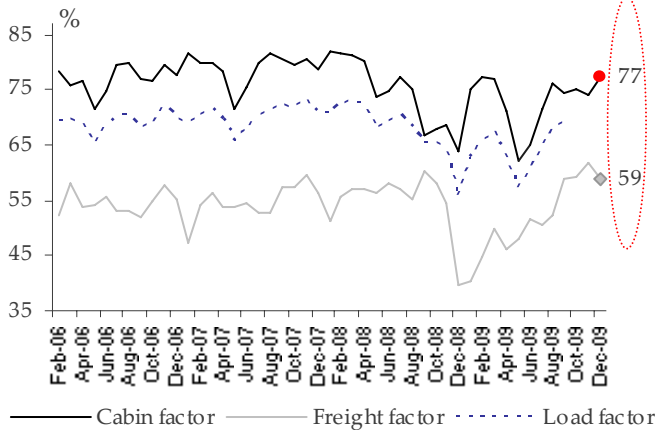
90% of THAI's travel demand is from Asia, Europe, Australia



Source: THAI, SCBS Investment Research

Chart 4: THAI's leading indicators

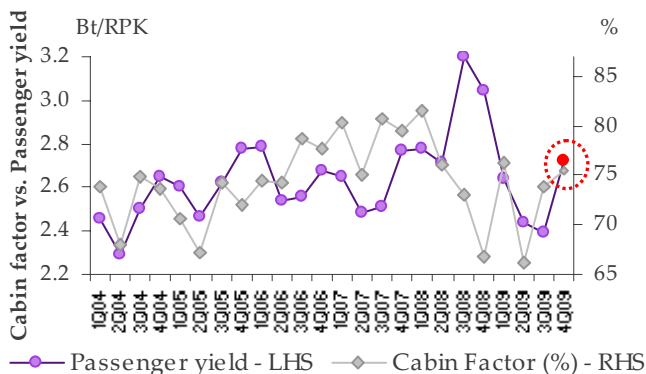
Cabin & freight factors returned to normal levels in 4Q09.



Source: THAI, SCBS Investment Research

Chart 5: Cabin factor vs. yield analysis

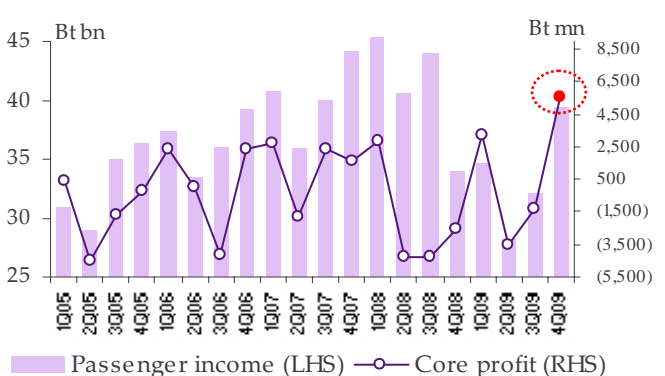
Passenger yield caught up with air travel recovery in 4Q09, supported by a sequential restoration of premium tickets.



Source: THAI, SCBS Investment Research

Chart 6: 4Q09 core profit made a new high

Core profit in 4Q09 is the highest since 2004, thanks to savings from non-fuel costs.



Source: SCBS Investment Research

Thai Airways International PLC

Company background

THAI is the national flag carrier for Thailand and is 54% owned by the Ministry of Finance. It is also one of the largest airlines in the region. It has maintained a strong market position in international routes with a market share of around 40% of international passenger traffic through Thailand’s international airports. It is a founding member of Star Alliance, and this is a vehicle for network expansion via code sharing with partner airlines. While the company focuses mainly on international routes, it maintains service to major Thai cities and also captures the low-cost domestic market through a subsidiary, Nok Air, in which it holds 39%.

Investment thesis

We suggest it is time to trim position at this point. Although we foresee earnings to excel from remarkable development in traffic/yield and cost-saving benefits, the extended equity base will lessen expected ROE and thus valuation on PBV multiple, in our view.







Valuation

Our price target of Bt26 is based on our base case scenario cash call of Bt20bn for the fleet replacement program. After capital raising, we believe THAI should be valued at 0.81x 2010F PBV or 5.14x 2010F EV/EBITDA, reflecting lower expected ROE from larger equity base.

Risks

Apart from the risk posed by the liquidity crunch from its aggressive capital structure and an unexpected rise in fuel costs, THAI is also vulnerable to:

- 1) political unrest,
- 2) overall downgrade of Thailand as a tourist destination and
- 3) strong labor union resistance to changes in internal practices and compensation.

CG Rating 2008 		
Score Range	Number of Logo	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 - 59		Pass
Lower than 50	No logo given	N/A

Corporate Governance Report disclaimer

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