



# Management Discussion and Analysis

For the 1<sup>st</sup> Quarter of 2019



## Executive Summary

The global economy during the first quarter of 2019 (Q1/2019) has improved as the United States and China have reached a compromise to ease trade tensions together with the delayed an interest-rate hike of the Federal Reserve (Fed) and the European Central Bank (ECB) over this year. The US economy grew a solid rate of 3.2% on the back of the export, while consumption and private investment tend to be weak. At the same time, the Chinese economy grew better than expected at 6.4%, as a result of the government's economic stimulus policy to support the economy. The Chinese government has approved the public investment in infrastructure which results in the accelerating expansion of fixed asset investment and the recovery of private consumption. For the Eurozone (EU) economy expanded by 0.4% over to the previous quarter, leading to relieve the concern over the ongoing economic slowdown. However, the EU still has confronted with the political pressure, especially the uncertainty of Brexit. Therefore, the aforementioned volatilities impact Thailand's economic growth and may affect the company's operation.

In Q1/2019, Thai economic is expected to grow at a slower pace, compared to the same period in the previous year, resulting from the slowdown of the exports of good and services. Whereas, the services and tourism sectors expanded gradually, on the back of the return of foreign visitors due to the government measure to stimulate the international inbound travel by an extended Visa on Arrival (VOA) fee waiver.

The tourism sector in the first three-month of the year 2019 improved slowly. The number of international tourists to Thailand revealed a total of 10.8 million inbound visitors from January to March 2019, which accounts for a 2% increase from the same period last year, led by Chinese, European, and ASEAN tourists. Among all regions, the South Asia region imposed the highest growth at 21%, whereas the Middle East region contracted the most at 15% compared to the same period last year, reflecting from the aforementioned circumstance. As a result, the number of passengers carried of Thai AirAsia in Q1/2019 was at 5.9 million, or up 4% over the same period last year. During the Q1/2019, Thai AirAsia unveiled its seventh flight hub in Chiang Rai and inaugurated 4 new routes, comprising of Chiang Rai – Macau, Chiang Rai – Kuala Lumpur, Chiang Rai – Singapore, and Chiang Rai – Phuket.

For Q1/2019, Asia Aviation Plc had a total revenue of Baht 11,622.7 million and net profit of Baht 497.2 million, declined to the same period last year. This mainly resulted from the slow improvement of the tourism industry.



## Financial Performance Summary

Asia Aviation Public Company Limited (“AAV”) is a major shareholder of Thai AirAsia Company Limited who is an airline operator of Thai AirAsia, in which the Company currently holds 55%.

Asia Aviation Public Company Limited’s financial performance for the three-month period ended 31 March 2018 and 2019 has been summarised below:

### Statement of Comprehensive Income

Asia Aviation Public Company Limited Unit: Baht million	Consolidated		Change
	For the three-month period ended 31 March		
	2019	2018	
Total revenues	11,622.7	11,642.8	(-0%)
Total expenses	10,493.4	9,544.7	+10%
Profit (loss) before finance cost and income tax	1,129.3	2,098.1	(-46%)
Profit (loss)/ Total comprehensive income for the period	903.5	1,829.7	(-51%)
Equity holders of the Company	497.2	1,004.1	(-50%)
Non-controlling interests of the subsidiary	406.3	825.6	(-51%)
Earnings (loss) Per Share (Baht)	0.1025	0.2070	(-50%)

In Q1/2019, Asia Aviation Plc had total revenues of Baht 11,622.7 million, similar to the same period last year at Baht 11,642.8 million. Whilst, total expenses were at Baht 10,493.4 million, rose by Baht 948.7 million or 10% compared to the same period last year. Thus, Net profit/ Total comprehensive income for the period attributable to equity holders of the Company amounted to Baht 497.2 million and basic profit per share was at Baht 0.1025 per share.

### Statement of Financial Position

Asia Aviation Public Company Limited Unit: Baht million	Consolidated		Change
	As at 31 March 2019	As at 31 December 2018	
Total assets	62,178.8	61,746.7	+1%
Total liabilities	32,786.0	33,123.9	(-1%)
Equity attributable to owners of the Company	20,879.1	20,455.4	+2%
Non-controlling interests of the subsidiary	8,513.7	8,167.4	+4%
Total shareholders’ equity	29,392.8	28,622.8	+3%

## Assets

As at 31 March 2019, total assets amounted to Baht 62,178.8 million, increased by Baht 432.1 million or 1% compared to the year ended 31 December 2018, due to;

- (1) Current assets increased by Baht 728.9 million, mainly from an increase in amounts due from related parties in an amount of Baht 542.0 million and an increase in trade and other receivables in an amount of Baht 132.4 million
- (2) Non-current assets decreased by Baht 296.8 million due to a decrease in aircraft, leasehold improvement and equipment in an amount of Baht 310.0 million, resulting from an increase in accumulated depreciation.

## Liabilities

As at 31 March 2019, total liabilities amounted to Baht 32,786.0 million, decreased by Baht 337.9 million or 1% compared to the year ended 31 December 2018, due to;

- (1) Current liabilities decreased by Baht 519.3 million, mainly from a reduction in the unearned income in an amount of Baht 383.2 million since the next quarter is an off-peak travelling season together with a decrease in amounts due to related parties of Baht 198.1 million.
- (2) Non-current liabilities increased by Baht 181.4 million, mainly from the increase in long-term borrowings from financial institutions in an amount of Baht 595.1 million which is proposed for funding the acquisition of land and construction. Whereas, liabilities under finance lease agreements decreased by Baht 454.3 million, owing to the repayments of finance leases and the payment of interest.

## Equity

As at 31 March 2019, total shareholders' equity amounted to Baht 29,392.8 million, increased by Baht 770.0 million or 3% compared to the year ended 31 December 2018, resulting from the operating results during the period in an amount of Baht 903.5 million. Whilst, the accumulative effect of change in accounting policy for the revenue recognition amounted to Baht 133.5 million, resulted from the adoption of TFRS15 to result in adjustments of processing and change of air ticket fees. Hence, equity attributable to owners of the Company and non-controlling interests of the subsidiary as at 31 March 2019 amounted to Baht 20,879.1 million and Baht 8,513.7 million, respectively.

Statement of Cash Flows

Asia Aviation Public Company Limited	Consolidated	
Unit: Baht million	For the three-month period ended 31 March	
	2019	2018
Net cash generated from (used in) operating activities	276.0	1,804.8
Net cash generated from (used in) investing activities	(113.5)	(250.5)
Net cash generated from (used in) financing activities	<u>(39.8)</u>	<u>(648.3)</u>
Net increase (decrease) in cash and cash equivalents	122.7	906.0
Unrealised exchange gain (loss) on cash and cash equivalents	(19.3)	(206.3)
Cash and cash equivalents at the beginning of the period	<u>4,122.6</u>	<u>5,338.0</u>
Cash and cash equivalents at the end of the period	<u>4,226.0</u>	<u>6,037.7</u>

For the three-month period ended 31 March 2019, Asia Aviation Plc had net cash generated from operating activities in an amount of Baht 276.0 million mainly due to operating profit in this period. In contrast, net cash used in investing activities was Baht 113.5 million, mainly from the payment for leasehold improvements and acquisitions of equipment. At the same time, net cash used in financing activities was Baht 39.8 million mainly due to payment for liabilities under finance lease agreements and interest paid. Even though, there was proceed from long-term borrowing from financial institutions in an amount of Baht 650.0 million for funding the acquisition of land and construction. As a result, Asia Aviation Plc had the net increase in cash and cash equivalents of Baht 122.7 million, while the cash and cash equivalents at the end of the period amounted to Baht 4,226.0 million.

Thai AirAsia's financial performance for the three-month period ended 31 March 2018 and 2019 has been summarised below:

Statement of Comprehensive Income

Thai AirAsia Company Limited Unit: Baht million	For the three-month period		Change
	ended 31 March		
	2019	2018	
Total Revenues	11,622.1	11,642.8	(-0%)
Total Expenses	10,493.5	9,538.5	+10%
Profit (loss) before finance costs and income taxes	1,128.5	2,104.3	(-46%)
Net Profit (loss)/Total Comprehensive income for the period	902.9	1,834.6	(-51%)
Earnings (loss) per share (Baht)	20.73	42.12	(-51%)

In Q1/2019, total revenues of Thai AirAsia amounted to Baht 11,622.1 million, almost the same as the same period last year at Baht 11,642.8 million. Primarily, revenues from sales and services amounted to Baht 11,155.3 million, decreased marginally by 1% from Baht 11,254.3 million in the first quarter of 2018 (Q1/2018), mainly due to 7% drop in the average fare of the quarter review to Baht 1,554 per passenger, as a result of the slowed recovery of the tourism industry. Although, the number of passengers carried in Q1/2019, achieving at 5.9 million or increased by 4%, in parallel with the capacity added, resulting in a strong load factor of 90%.

The ancillary revenues of Thai AirAsia in Q1/2019 grew by 9% to Baht 2,059.6 million from Baht 1,891.6 million in Q1/2018, which is higher than growth in the number of passengers. As a result, ancillary revenues per passenger was at Baht 351 per passenger or increased by 5% from the same period last year, mainly from the fee structure adjustment and the value pack promotion enhanced an increase in seat selection fees and other fees.

In Q1/2019, total expenses of Thai AirAsia amounted to Baht 10,493.5 million, raised by 10% from Baht 9,538.5 million in Q1/2018. Predominantly, the cost of sales and services amounted to Baht 9,169.0 million, or increased by 10% from Baht 8,741.7 million in Q1/2018, mainly from an increase in fuel costs in accordance with higher oil consumption. At the same time, expenses related to ramp and airport operating costs and repair and maintenance increased relative to the number of flights. Furthermore, selling and administrative expenses amounted to Baht 874.5 million, increased by 10%, mainly from staff costs and depreciation expenses. However, cost per available seat kilometres (CASK) was at Baht 1.53, similar to the same period with last year, while fuel cost per available seat kilometres was at Baht 0.53, declined by 2% from the same period last year, due to a 10% increase in available seat kilometres (ASK) from the expansion of international routes to result in 5% growth in the average stage length. In addition, Thai AirAsia continuously monitors our punctuality, resulting in 84% of on-time performance (OTP) in Q1/2019, an improvement from 81% in Q1/2018 with the increased efficiency, achieved by the utilisation rate of 12.5 hours per day similar to the same period last year. As a result, Gross profit in Q1/2019 amounted to Baht 1,536.3 million, with a gross profit margin of 14%.

Percentage of expenses by nature	Q1/2019	Q1/2018
Fuel costs	34.57	35.48
Staff costs	15.72	15.88
Aircraft and aircraft engine rental	12.81	12.89
Ramp and airport operating costs	12.64	11.40
Repair and maintenance	8.39	7.85
Selling and administrative expenses	6.54	6.48
Guest service and distribution	4.57	5.14
Depreciation and amortisation	4.10	4.21
Other operating costs	0.65	0.67

In the said quarter, Thai AirAsia recorded gain on the exchange in an amount of Baht 138.8 million or increased by 79% from the Thai baht strengthen against US dollar. Hence, earning before finance cost and income tax expense in Q1/2019 amounted to Baht 1,128.5 million, given an earning before finance cost, income tax, depreciation and amortisation, rental (EBITDAR) margin of 26%. However, finance cost for the quarter review raised in relation to a rise in the outstanding interest bearing debts. Consequence, Net profit/Total comprehensive income in Q1/2019 amounted to Baht 902.9 million, having a net profit margin of 8%.

Thai AirAsia Company Limited	Q1/2019	Q1/2018	Change
Passenger Carried (Million)	5.86	5.64	+4%
Capacity (Million seats)	6.51	6.22	+5%
Load Factor (%)	90	91	-1 ppt
Revenue Passenger Kilometres (Million seats-km)	6,151	5,618	+9%
Available seat kilometres (Million seats-km)	6,874	6,245	+10%
Average fare (Baht)	1,554	1,664	-7%
Revenue per Available seat kilometres(Baht)	1.62	1.80	-10%
Cost per Available seat kilometres (Baht)	1.53	1.53	0%
Cost per Available seat kilometres (ex-fuel)(Baht)	1.00	0.99	+1%

## Statement of Financial Position

Thai AirAsia Company Limited	As at	As at	Change
Unit: Baht million	As at 31 March 2019	31 December 2018	
Total assets	38,346.4	37,917.9	+1%
Total liabilities	29,799.0	30,139.8	(-1%)
Total shareholders' equity	8,547.4	7,778.1	+10%

### Assets

As at 31 March 2019, total assets amounted to Baht 38,346.4 million, increased by Baht 428.5 million or 1% compared to the year ended 31 December 2018, due to;

- (1) Current assets increased by Baht 725.4 million, mainly from an increase in amounts due from related parties in an amount of Baht 542.0 million and an increase in trade and other receivables in an amount of Baht 132.0 million
- (2) Non-current assets decreased by Baht 296.8 million due to a decrease in aircraft, leasehold improvement and equipment in an amount of Baht 310.0 million, resulting from an increase in accumulated depreciation.

### Liabilities

As at 31 March 2019, total liabilities amounted to Baht 29,799.0 million, increased by Baht 340.8 million or 1% compared to the year ended 31 December 2018, due to;

- (1) Current liabilities decreased by Baht 522.1 million, mainly from a reduction in the unearned income in an amount of Baht 383.2 million since the next quarter is an off-peak travelling season together with a decrease in amounts due to related parties of Baht 198.1 million.
- (2) Non-current liabilities increased by Baht 181.3 million, mainly from an increase in long-term borrowings from financial institutions in an amount of Baht 595.1 million which is proposed for funding the acquisition of land and construction. Whereas, liabilities under finance lease agreements decreased by Baht 454.3 million, owing to the repayments of finance leases and the interest paid.

### Equity

As at 31 March 2019, total shareholders' equity amounted to Baht 8,547.4 million, increased by Baht 769.4 million or 10% compared to the year ended 31 December 2018, mainly due to the operating results during the period in an amount of Baht 902.9 million. Whilst, the accumulative effect of change in accounting policy for the revenue recognition amounted to Baht 133.5 million, resulted from the adoption of TFRS15 to result in adjustments of processing and change of air ticket fees. Thai AirAsia's Debt-to-Equity ratio (Interest Bearing Debt) and Net Gearing ratio as at 31 March 2019 were 2.43x and 1.95x, respectively.

Statement of Cash Flows

Thai AirAsia Company Limited	For the three-month period ended 31 March	
Unit: Baht million	2019	2018
Net cash generated from (used in) operating activities	273.0	1,866.0
Net cash generated from (used in) investing activities	(113.5)	(250.5)
Net cash generated from (used in) financing activities	<u>(39.8)</u>	<u>(648.3)</u>
Net increase (decrease) in cash and cash equivalents	119.6	967.2
Unrealised exchange gain (loss) on cash and cash equivalents	(19.3)	(206.2)
Cash and cash equivalents at the beginning of the period	<u>4,037.0</u>	<u>5,210.6</u>
Cash and cash equivalents at the end of the period	<u>4,137.3</u>	<u>5,971.6</u>

For the three-month period ended 31 March 2019, Thai AirAsia had net cash generated from operating activities in an amount of Baht 273.0 million mainly due to operating profit in this period. In contrast, net cash used in investing activities was Baht 113.5 million, mainly from the payment for leasehold improvements and acquisitions of equipment. At the same time, net cash used in financing activities was Baht 39.8 million mainly due to payment for liabilities under finance lease agreements and interest paid. Even though, there was proceed from long-term borrowing from financial institutions in an amount of Baht 650.0 million for funding the acquisition of land and construction. As a result, Thai AirAsia had the net increase in cash and cash equivalents of Baht 119.6 million, while the cash and cash equivalents at the end of the period amounted to Baht 4,137.3 million.



## Business Outlook



The global economy in 2019 tends to grow slower than expected and likely to be a global synchronised slowdown which is caused by tightening financial conditions while the economic stimulus measures begin to be limited. Although the United States-China trade tension seems to ease, anyway it is just only the time extension. In addition, the US is considering charging tariffs on imported goods from the European Union (EU), leading to the return of the trade war risk. As a result, the International Monetary Fund (IMF) cuts its global growth outlook in 2019 to 3.3%, down from 3.5% in January 2019, which is the lowest rate since the Subprime crisis. Furthermore, the Federal Reserve (Fed) indicates to delay interest rate hikes, that would be weakening the US dollar. As the Company has revenues and expenses in various different currencies such as passenger fares, repair and maintenance as well as aircraft rental, the Company has adopted the practice of Natural Hedging by matching cash expenses and revenues in the same currency as practically possible. Moreover, the structure of the foreign currency loans is made in accordance with the highest currency net operating cash flow. The company also used financial instruments for currency risk management when deemed applicable.



The global crude oil price tends to rise in a narrow frame due to the lower supply after the Organization of the Petroleum Exporting (OPEC) has cut its oil production along with the United States' sanction on Iran and Venezuela. However, the crude oil price is inclined to decline in the second half of the year as the continual increase in oil production in the United States. In addition, the United States' shale oil producer will accelerate the pace of their production growth in the Permian Basin after the construction of oil pipeline is completed. In an attempt to ensure against the constant fluctuation in fuel costs, Thai AirAsia has the fuel hedging policy as a tool to mitigate its exposure to volatility at 52% of the total fuel consumption for the year 2019 at an average effective cost of USD 80 per barrel.



The Thai economy in 2019 tends to grow at a slower pace as the result of the sluggish growth in the exports sector due to the impact of the trade war as the aforementioned, the delay of government investment, and the postpone of private investment as they are waiting for the new government policy. However, Thailand's economy still has strong support from the tourism sector which has recovered from the return of Chinese tourists together with the extension of the waving Visa on Arrival fee scheme for 6 months from 1 May 2019 to 31 October 2019. The Tourism Council of Thailand forecasts the number of international tourists in the second quarter of 2019 (Q2/2019) to reach 9.3 million, or up 5% from the same period last year on the back of a tax incentive to stimulate tourism in both major and secondary cities, as well as, the several holidays such as Chakri Day, Songkran Festival, The Coronation of King, and Wisakha Bucha Day. Hence, the international tourists for the year 2019 are expected to reach 40.6 million, or up 6% compared to the previous year with revenues in an amount of Baht 2.2 trillion.



For the second and the third quarter of 2019, Thai AirAsia lives up to its strategic emphasis on the Indochina markets (CLMV) by having added 3 international routes to Vietnam; Don Mueang – Can Tho, Don Mueang – Nha Trang and Chiang Mai – Da Nang, as well as, launching 2 routes to Cambodia; Don Mueang – Sihanoukville and Phuket – Phnom Penh. It also introduced 1 additional route to India with Don Mueang – Ahmedabad, affirming its desire to improve capital management and appropriate utilisation of its fleet. Furthermore, Thai AirAsia is planning to add more routes to the Indian and the CLMV markets to reinforce its continually strong position in the domestic and the Chinese markets. Therefore, this diversified strategy tends to minimise the risk of dependence on the major customer base, enhancing the Company and Thai AirAsia's sustainable revenue growth in the future and maintain its leading low-fare airline in Thailand. In 2019, Thai AirAsia maintains a target of 23.15 million passengers, with a solid load factor at 86%, and plans to acquire more energy efficient aircraft during the year to bring its fleet to 63 aircraft.



## Glossary

**Load factor** = Represents the number of passengers carried as a proportion to capacity, which is the number of seats available for passengers

**Available seat kilometres (ASK)** = which is the total number of seats available on all flights multiplied by the number of kilometres these seats were flown

**Revenue passenger kilometres (RPK)** = Revenue passenger kilometres, which is the number of paying passengers carried on all flights multiplied by the number of kilometres those seats were flown

**Average fare** = Calculated as Thai AirAsia's total passenger revenues and fuel surcharge divided by total number of passengers carried

**Revenue per ASK (RASK)** = Calculated as Thai AirAsia's revenues divided by ASK

**Cost per ASK (CASK)** = Calculated as the sum of Thai AirAsia's operating costs, selling expenses and administrative expenses (but excluding finance costs) divided by ASK

**Cost per ASK (CASK ex-fuel)** = Calculated as the sum of Thai AirAsia's operating costs, selling expenses and administrative expenses (but excluding finance costs) less fuel costs divided by ASK

**Average stage length (kilometres)** = Represents the average number of kilometres flown per flight

**Aircraft utilisation** = Represents the average block hours per day per aircraft during the relevant period. Block hours is calculated by measuring the duration between the time of departure of an aircraft and the time of arrival at its destination.

**Debt to Equity ratio (D/E)** = Calculated as Thai AirAsia's total interest bearing debt divided by total equity

**Net Gearing ratio** = Calculated as Thai AirAsia's total interest bearing debt less cash divided by total equity

**Available seat kilometres (ASK)** = which is the total number of seats available on all flights multiplied by the number of kilometres these seats were flown

**Revenue passenger kilometres (RPK)** = Revenue passenger kilometres, which is the number of paying passengers carried on all flights multiplied by the number of kilometres those seats were flown