



# Management Discussion and Analysis

For the 2<sup>nd</sup> Quarter of 2019



**WORLD'S BEST**  
LOW-COST AIRLINE  
**11**  
YEARS RUNNING



## Executive Summary

The global economy during the second quarter of 2019 (Q2/2019) fluctuated and aggravated from the heightened trade tension between the U.S. and China, affecting the export sector of many countries. The U.S. economy grew with a slower rate of 2.1 percent, as a result of the slowdown in manufacturing industry and export, enforced by the uncertainty of the trade war, despite the accelerate growth of consumption and public investment. At the same time, the Chinese economy expanded 6.2 percent, the slowest pace in 27 years, mainly from the prolonged trade war and the sluggish global economy. Despite the government's economic stimulus policy through tax cut and infrastructure bond, the slowdown of private consumption and the lower demand remained pressuring to the economic. Meanwhile, the Eurozone (EU) economy has confronted with the diminished economic trend, Italy's Debt Crisis and the uncertainty of Brexit. Therefore, the aforementioned volatilities have impacted Thailand's economic growth and may affect the company's operation.

In Q2/2019, Thai economy is projected to grow at slower pace amid a global economic slowdown, resulting in the sluggish growth of the export and private consumption expenditure. Whereas, the service and tourism sectors expanded gradually, reflected by the increasing number of tourist arrival bolstered by the benefit from government's stimulus measures to boost the international inbound travel by an extended Visa on Arrival (VOA) fee waiver.

The number of international tourists to Thailand from January to June 2019 inched up by 1 percent from the same period last year to 19.7 million. Meanwhile, the number of international tourists to Thailand from April to June 2019 improved slowly by 1 percent over the same period last year to 9.0 million. The major international tourist is from ASEAN, China and Europe. Among all regions, the South Asia projected the highest growth at 20 percent, whereas the Chinese tourist contracted the most at 8 percent compared to the same period last year, reflecting from the aforementioned circumstance. As a result, the number of passengers carried of Thai AirAsia in Q2/2019 was at 5.58 million, or up 5 percent over the same period last year. During the Q2/2019, Thai AirAsia inaugurated 7 new routes including Bangkok (Don Mueang) to Can Tho and Nha Trang in Vietnam, and Ahmedabad in India; Chiang Mai to Da Nang in Vietnam and Shenzhen in China; Chiang Rai to Shenzhen; and Phuket to Phnom Penh in Cambodia. It also increased flight frequencies on popular routes such as Bangkok to Roi Et, Khon Kaen and Shenzhen.

In June 2019, AirAsia was granted the award for the World's Best Low Cost Airline for the 11th year consecutively (2009-2019), announced by Skytrax. For Q2/2019, Asia Aviation Plc had total revenues of Baht 10,015.3 million and a net loss of Baht 482.5 million, increased from the same period last year, mainly resulting from lower-than-forecast foreign visitation to Thailand. Besides, Thai baht has soared against the U.S. dollar this year, making it leaps ahead of other regional currencies.



## 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 percent.

Asia Aviation Public Company Limited’s financial performance for the three-month and the six-month periods ended 30 June 2018 and 2019 has been summarised below:

### Statement of Comprehensive Income

Asia Aviation Public Company Limited	Consolidated			Consolidated		
Unit: Baht million	For the three-month		Change	For the six-month		Change
	period ended	30 June		period ended	30 June	
	2019	2018		2019	2018	
Total revenues	10,015.3	9,302.6	+8%	21,637.9	20,896.2	+4%
Total expenses	10,804.3	9,835.5	+10%	21,297.7	19,331.0	+10%
Profit (loss) before finance cost and income tax	(789.1)	(532.9)	-48%	340.2	1,565.3	-78%
Profit (loss)/Total comprehensive income for the period	(878.1)	(561.5)	-56%	25.4	1,268.2	-98%
Equity holders of the Company	(482.5)	(306.1)	-58%	14.7	698.0	-98%
Non-controlling interests of the subsidiary	(395.6)	(255.4)	-55%	10.7	570.2	-98%
Earnings (loss) Per Share (Baht)	(0.0995)	(0.0631)	-58%	0.0030	0.1439	-98%

In Q2/2019, Asia Aviation Plc had total revenues of Baht 10,015.3 million, increased by 8 percent from the same period last year at Baht 9,302.6 million. Whereas, total expenses were at Baht 10,804.3 million, rose by 10 percent compared to the same period last year. Therefore, Net loss/ loss from Total comprehensive income for the period attributable to equity holders of the Company amounted to Baht 482.5 million, increased by 58 percent compared to the same period last year, and basic loss per share was at Baht 0.0995.

For the first half year of 2019 (1H2019), Asia Aviation Plc had total revenues of Baht 21,297.7 million, increased by 4 percent compared to the same period last year. Moreover, profit before finance cost and income tax amounted to Baht 340.2 million, decreased by 78 percent compared to the same period last year. Consequently, Net Profit/ Total comprehensive income for the period attributable to equity holders of the Company in 1H2019 amounted to Baht 14.7 million, from Baht 698.0 million in the first half year of 2018 (1H2018), and basic earnings per share was at Baht 0.0030.

## Statement of Financial Position

Asia Aviation Public Company Limited	Consolidated		Change
Unit: Baht million	As at 30 June 2019	As at 31 December 2018	
Total assets	60,996.5	61,746.7	-1%
Total liabilities	32,481.8	33,123.9	-2%
Equity attributable to owners of the Company	20,396.6	20,455.4	0%
Non-controlling interests of the subsidiary	8,118.0	8,167.4	-1%
Total shareholders' equity	28,514.7	28,622.8	0%

### Assets

As at 30 June 2019, total assets amounted to Baht 60,996.5 million, decreased by Baht 750.2 million or 1 percent compared to the year ended 31 December 2018, due to;

- (1) Current assets decreased by Baht 568.2 million, mainly from a decrease in cash and cash equivalents in an amount of Baht 1,192.2 million while the amounts due from related parties increased by Baht 502.6 million.
- (2) Non-current assets decreased by Baht 182.0 million due to a decrease in aircraft, leasehold improvement and equipment in an amount of Baht 679.1 million, resulting from an increase in accumulated depreciation. While the aircraft maintenance reserves increased by Baht 514.8 million along with an increase in operational hours.

### Liabilities

As at 30 June 2019, total liabilities amounted to Baht 32,481.8 million, decreased by Baht 642.1 million or 2 percent compared to the year ended 31 December 2018, due to;

- (1) Current liabilities increased by Baht 692.5 million, mainly from an increase in the current portion of long-term debentures due within one year in an amount of Baht 999.7 million
- (2) Non-current liabilities decreased by Baht 1,334.6 million, mainly from a decrease in liabilities under finance lease agreements of Baht 974.4 million, owing to the repayments of finance leases and the interest paid. Whereas, long-term borrowings from financial institutions increased by Baht 541.5 million which is proposed for funding the acquisition of land and the construction of academy.

### Equity

As at 30 June 2019, total shareholders' equity amounted to Baht 28,514.7 million, decreased by Baht 108.1 million compared to the year ended 31 December 2018, resulting from the accumulative effect of change in accounting policy for the revenue recognition amounted to 133.5 million. Whereas, the operating results during the period amounted to Baht 25.4 million. Hence, equity attributable to owners of the Company and non-controlling interests of the subsidiary as at 30 June 2019 amounted to Baht 20,396.6 million and Baht 8,118.0 million, respectively.

## Statement of Cash Flows

Asia Aviation Public Company Limited	Consolidated	
Unit: Baht million	For the six-month period ended 30 June	
	2019	2018
Net cash generated from (used in) operating activities	(84.6)	1,769.4
Net cash generated from (used in) investing activities	(674.7)	(597.8)
Net cash generated from (used in) financing activities	<u>(333.3)</u>	<u>(1,467.3)</u>
Net increase (decrease) in cash and cash equivalents	(1,092.6)	(295.7)
Unrealised exchange gain (loss) on cash and cash equivalents	(99.6)	(9.9)
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>2,930.5</u>	<u>5,032.4</u>

For the six-month period ended 30 June 2019, Asia Aviation had net cash used in operating activities in an amount of Baht 84.6 million due to operating results in the period review. While net cash used in investing activities was Baht 674.7 million, mainly from the payment for aircraft maintenance reserves along with the operational hours. At the same time, net cash used in financing activities was Baht 333.3 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 the construction of academy. As a result, Asia Aviation Plc had the net decrease in cash and cash equivalents of Baht 1,092.6 million, while the cash and cash equivalents at the end of the period amounted to Baht 2,930.5 million.

Thai AirAsia's financial performance for the three-month and the six-month periods ended 30 June 2018 and 2019 has been summarised below:

#### Statement of Comprehensive Income

Thai AirAsia Company Limited Unit: Baht million	For the three-month			For the six-month		
	2019	2018	Change	2019	2018	Change
Revenues from sales and services	10,015.2	9,302.5	+8%	21,637.3	20,896.2	+4%
Gross profit	10,805.6	9,842.9	+10%	21,299.1	19,332.3	+10%
Profit (loss) before finance costs and income taxes	(790.4)	(540.4)	-46%	338.1	1,563.9	-78%
Net Profit (loss)/ Total Comprehensive income for the period	(879.1)	(567.5)	-55%	23.8	1,267.1	-98%
Earnings (loss) per share (Baht)	(20.18)	(13.03)	-55%	0.55	29.09	-98%

In Q2/2019, total revenues of Thai AirAsia amounted to Baht 10,015.2 million, increased by 8 percent from the same period last year at Baht 9,302.5 million. Primarily, revenues from sales and services amounted to Baht 9,608.7 million, increased by 6 percent from Baht 9,050.6 million in the second quarter of 2018 (Q2/2018) on the back of a 5 percent increase in the number of passengers carried, achieving at 5.6 million, surpassing the growth percentage of foreign visitors to Thailand during the same period. However, the average fare of the quarter review dropped marginally to Baht 1,390 per passenger, mainly from a stronger Baht and the sluggish growth of tourist arrival to Thailand, particularly the decrease in tourists from China resulting from Chinese Yuan devaluation. As a result, the load factor in the said quarter recorded at 83 percent, down by 2 percentage point (ppt) compared to the same period last year.

Ancillary revenues of Thai AirAsia in Q2/2019 grew by 15 percent to Baht 1,876.1 million from Baht 1,631.1 million in Q2/2018, which is higher than growth in the number of passengers. As a result, ancillary revenues per passenger was at Baht 336 per passenger or increased by 9 percent from the same period last year, mainly from the fee structure adjustment and the processing fees, as well as, the connecting fees (Fly-Thru), which connect flights between AirAsia Group raised in parallel to the number of passengers.

In Q2/2019, total expenses of Thai AirAsia amounted to Baht 10,805.6 million, expanded by 10 percent from Baht 9,842.9 million in Q2/2018. Predominantly, the cost of sales and services amounted to Baht 9,987.5 million, or increased by 11 percent from Baht 8,999.8 million in Q2/2018, mainly from an increase in fuel costs along with a 14 percent increase in fuel consumption. At the same time, expenses related to ramp and airport operating costs and repair and maintenance increased relative to the number of flights. As a result, cost per available seat kilometres (CASK) was at Baht 1.57, declined by 2% from the same period last year, while fuel costs per available seat kilometres was at Baht 0.55, declined by 6 percent from the same period last year. Whereas available seat kilometres (ASK) increased by 12 percent from the expansion of international routes to result in a 5 percent growth in the average stage



length. Besides, Thai AirAsia continuously monitors our punctuality, resulting in an 86 percent of on-time performance (OTP) in Q2/2019. Even though in the said period has no additional aircraft, Thai AirAsia still expanded more routes by optimising the aircraft and slots to achieve the aircraft utilisation rate of 12.5 hours per day, improved from 11.9 hours per day in the same period last year.

In the said quarter, Thai AirAsia recorded gain on exchange in an amount of Baht 212.5 million, reversed from loss on exchange amounted to Baht 49.2 million in Q2/2018 from the Thai baht strengthen against the U.S. dollar. However, in the quarter review has booked the one-time expense for the additional long-term employee benefit liabilities of Baht 111 million. Hence, loss before finance cost and income tax expense in Q2/2019 amounted to Baht 790.4 million, given an earning before finance cost, income tax, depreciation and amortisation, rental (EBITDAR) margin of 10 percent. In addition, a marginally increase in finance costs for the quarter review was mainly a rise in the outstanding of interest-bearing debts. In consequence, Net loss/ loss in Total comprehensive income in Q2/2019 amounted to Baht 879.1 million, having a net loss margin of 9 percent.

Thai AirAsia Company Limited	Q2/2019	Q2/2018	Change	1H2019	1H2018	Change
Passenger Carried (Million)	5.58	5.31	+5%	11.44	10.95	+4%
Capacity (Million seats)	6.75	6.28	+8%	13.26	12.50	+6%
Load Factor (%)	83%	85%	-2 ppt	86%	88%	-2 ppt
Revenue Passenger Kilometres (Million seats-km)	5,643	5,194	+9%	11,794	10,812	+9%
Available seat kilometres (Million seats-km)	6,903	6,147	+12%	13,777	12,391	+11%
Average fare (Baht)	1,390	1,402	-1%	1,474	1,537	-4%
Revenue per Available seat kilometres(Baht)	1.39	1.47	-5%	1.51	1.64	-8%
Cost per Available seat kilometres (Baht)	1.57	1.59	-2%	1.55	1.56	-1%
Cost per Available seat kilometres (ex-fuel)(Baht)	1.02	1.02	0%	1.01	1.00	+1%

For 1H2019, total revenues of Thai AirAsia amounted to Baht 21,637.3 million, expanded by 4 percent from Baht 20,896.2 million in 1H2018. Mainly, revenues from sales and services amounted to Baht 20,764.0 million, increased by 2 percent compared to the same period last year, primarily due to a 4 percent increase in passengers to 11.4 million, resulting in a strong load factor of 86 percent. Although, the average fare was at 1,474 per passenger, declined by 4 percent from the same period last year, as a result of the slower growth of visitors to Thailand and the appreciation of Thai Baht which pressured the demand of foreign tourists. Moreover, Thai AirAsia did not add any additional aircraft during the period under review, bringing its total fleet to 62 aircraft. Available Seat Kilometres (ASK) increased by 11 percent year-on-year on the back of capacity that was added for China, Indochina and India routes, reflected by an increase in its aircraft utilisation to 12.5 hours per day in 1H2019 from 12.2 hours per day in 1H2018 according to its plan.

In 1H2019, total expenses of Thai AirAsia amounted to Baht 21,299.1 million, increased by 10 percent from Baht 19,332.3 million in 1H2018, as a result of an 11 percent increase in the fuel consumption regarding an increase in ASK, despite a decrease in average oil prices. This had a direct effect on the company as fuel costs account for 35 percent of the total costs of the company. However, the decrease in selling expenses was primarily from the cost reduction of advertising and promotion. While the administrative expenses raised mainly from the staff cost and the recognition of the additional long-term employee benefit liabilities of Baht 111 million. As a result, Thai AirAsia has a Net profit/ Total comprehensive income for the period attributable to equity holders of the Company in 1H2019 amounted to Baht 23.8 million, from Baht 1,267.1 million in 1H2018, having a net profit margin of 0.1 percent.

#### Statement of Financial Position

Thai AirAsia Company Limited	As at	As at	Change
Unit: Baht million	As at 30 June 2019	31 December 2018	
Total assets	37,173.8	37,917.9	-2%
Total liabilities	29,505.5	30,139.8	-2%
Total shareholders' equity	7,668.3	7,778.1	-1%

#### Assets

As at 30 June 2019, total assets amounted to Baht 37,173.8 million, decreased by Baht 744.1 million or 2 percent compared to the year ended 31 December 2018, due to;

- (1) Current assets decreased by Baht 570.1 million, mainly from a decrease in cash and cash equivalents in an amount of Baht 1,193.8 million while the amounts due from related parties increased by Baht 502.6 million.
- (2) Non-current assets decreased by Baht 174.0 million due to a decrease in aircraft, leasehold improvement and equipment in an amount of Baht 679.1 million, resulting from an increase in accumulated depreciation. Whereas, the aircraft maintenance reserves increased by Baht 514.8 million in relation to an increase in operational hours.

#### Liabilities

As at 30 June 2019, total liabilities amounted to Baht 29,505.5 million, decreased by Baht 634.3 million or 2 percent compared to the year ended 31 December 2018, due to;

- (1) Current liabilities increased by Baht 692.7 million, mainly from an increase in the current portion of long-term debentures due within one year in an amount of Baht 999.7 million
- (2) Non-current liabilities decreased by Baht 1,327.0 million, mainly from a decrease in liabilities under finance lease agreements of Baht 974.4 million, owing to the repayments of finance leases and the interest paid. Whereas, long-term borrowings from financial institutions increased by Baht 541.5 million which is proposed for funding the acquisition of land and the construction of academy.

## Equity

As at 30 June 2019, total shareholders' equity amounted to Baht 7,668.3 million, decreased by Baht 109.8 million or 1 percent compared to the year ended 31 December 2018, mainly due to the accumulative effect of change in accounting policy for the revenue recognition amounted to 133.5 million. Whilst, the operating results during the period in an amount of Baht 23.8 million. Thai AirAsia's Debt-to-Equity ratio (Interest Bearing Debt) and Net Gearing ratio as at 30 June 2019 were 2.75x and 2.37x, respectively.

## Statement of Cash Flows

Thai AirAsia Company Limited	For the six-month period ended 30 June	
	2019	2018
Unit: Baht million		
Net cash generated from (used in) operating activities	(86.2)	1,760.9
Net cash generated from (used in) investing activities	(674.7)	(597.8)
Net cash generated from (used in) financing activities	<u>(333.3)</u>	<u>(1,479.5)</u>
Net increase (decrease) in cash and cash equivalents	(1,094.2)	(316.4)
Unrealised exchange gain (loss) on cash and cash equivalents	(99.6)	(9.9)
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>2,843.2</u>	<u>4,884.3</u>

For the six-month period ended 30 June 2019, Thai AirAsia had net cash used in operating activities in an amount of Baht 86.2 million mainly due to operating results in the period review. While net cash used in investing activities was Baht 674.7 million, mainly from the payment for aircraft maintenance reserves along with the operational hours. At the same time, net cash used in financing activities was Baht 333.3 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 the construction of academy. As a result, Thai AirAsia had the net decrease in cash and cash equivalents of Baht 1,094.2 million, while the cash and cash equivalents at the end of the period amounted to Baht 2,843.2 million.

## Business Outlook

The global economy in 2019 is expected to continue its slowdown pace from the impact of the U.S.-China trade tension. Moreover, the trade tension has a possibility to expand to other countries that have a trade surplus with the U.S. The uncertainty of trade policies has pressured the broad-based global trade and investment environment, leading to spark concerns of an economic recession. However, the central banks of developing market signalled to apply additional monetary easing, if needed. The Federal Reserve (Fed) has announced a cut of 0.25 percentage point, which is one of measurement proceeded by FED, which would weaken the U.S. dollar. At the same time, the Thai baht strengthens against the U.S. dollar due to the continual fund inflows after the clarity of Thai politics. As the Company has revenues and expenses in various currencies such as passenger fares, repair and maintenance cost 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 to be 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 in second half 2019 (2H/2019) has declined compared to the same period last year, while slightly higher than 1H/2019, mainly a result of the continual increase in oil production in the U.S. in accordance with the oil drilling expansion, along with the lower oil consumption from the economic slowdown. However, the Organization of the Petroleum Exporting (OPEC) agreed to extend oil production cut for nine months, putting the pressure on global supply. 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. In 2H/2019, Thai AirAsia has hedged 70 percent of the total fuel consumption at an average Brent price of USD 62 per barrel.

The Thai economy in 2019 is forecasted to grow at a sluggish rate, as the exports sector falls amid the trade war. Furthermore, the weakened trend of consumption and private investment is owing to the lack of confidence in the global economy. However, Thailand's economy may be supported by government policies and the economic stimulus measures following the completion of the government establishment. Besides, The Bank of Thailand cuts its policy interest rate by 0.25 percentage point to stimulate economic growth, driven by private consumption and investment. The tourism sector is predicted to accelerate in 2H/2019 as a result of the recovery of Chinese tourists together with the beginning to peak season for Thai tourism in the last quarter. Besides, the government has issued recovery measures to stimulate tourism such as the potential extension of the waving Visa on Arrival fee scheme from October 2019 to March 2020. The Tourism Authority of Thailand forecasts the number of international tourists for the year 2019 to reach 41 million, or up 7 percent from last year with revenues in an amount of Baht 3.38 trillion.

From 1 July 2019, Thai AirAsia has relocated its aircraft from Hat Yai to Don Mueang airport in order to optimise the efficiency to reach its aircraft utilisation at 12.5 hours according to its plan. For the third quarter of 2019 (3Q/2019), Thai AirAsia launched Bangkok (Don Mueang) – Sihanoukville in Cambodia. 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 maintaining its leading position as a low-fare airline in

Thailand. In 2019, Thai AirAsia targets of 23.15 million passengers, with a solid load factor at 86 percent, and plans to acquire the more energy-efficient aircraft during the year to bring its fleet to 63 aircraft.

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## 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