



Management Discussion and Analysis

For the 1st Quarter of 2020



WORLD'S BEST
LOW-COST AIRLINE
11
YEARS RUNNING



Executive Summary

The global economy during the first quarter of 2020 (Q1/2020) was significantly going through a slowdown, mainly from the Coronavirus (COVID-19) pandemic and the tightening implementation of infection control measures. As a result, manufacturing and consumption have been severely disrupted. Governments and central banks around the world have acted quickly with significant measures to mitigate the economic impact of closing for business, such as cutting policy rates, liquidity injection into the economic system, and personal compensation claim. Meanwhile, the U.S. economy shrank by an annualised 4.8 percent in Q1/2020 from a 3.1 percent of the growth in the first quarter of 2019 (Q1/2019), primarily due to imposed forced lockdown measures from several states, leading to pressuring the investment and the consumption. Consequently, the Federal Reserve (Fed) cut its policy rate to 0.00 - 0.25 percent and applied the unlimited quantitative easing (QE), injecting money into the financial system along with approved the budget to shield the business sector. At the same time, the Chinese economy contracted by 6.8 percent compared to the last year, mainly from stagnant economic activities and tightened lockdown measures in January and February, reflected in the decline of manufacturing and investment along with the sharp contraction in exports and retail sales. While the business activities gradually recovered in March after easing of lockdown measures. Thus, the volatilities mentioned above have impacted Thailand's economic growth and the company's operation.

In Q1/2020, the Thai economy contracted mainly due to slowdown in exports along with the global economic downturn. Furthermore, the tourism and service businesses, which is one of Thailand's crucial GDP, had

been severely affected by travel and movement restrictions together with home quarantine orders.

The tourism sector in the first three-month of the year 2020 fell in tandem with the COVID-19 pandemic, resulting in the travel restrictions and reduced travel demand. The number of international tourists to Thailand revealed a total of 6.7 million inbound visitors from January to March 2020 or decreased by 38 percent from the same period last year. Chinese tourists, the main contributor, had the highest contraction of 60 percent compared to the same period last year. Whereas, European visitors had the least contraction of 15 percent, as this virus has been spread in Europe near the quarter-end. As a result, the number of passengers carried of Thai AirAsia in Q1/2020 was at 4.5 million, or down by 23 percent over the same period last year. In 1Q/2020, Thai AirAsia realigned its network and arranged its capacity to enhance efficiency and better match the lower demand by reducing the frequency and suspending flights on the international sector to avoid travelling to COVID-19 affected areas. Hence, Thai AirAsia suspended all international services from March 22 to May 31, 2020. Consequently, the Available Seat Kilometres (ASK) declined by 30 percent from the last year to 4,834 million. During the said quarter, Thai AirAsia completed the aircraft sale and leaseback of 9 aircraft and an outright sale of 1 aircraft transactions, bringing its total fleet to 62 aircraft at the end of 1Q/2020.

With the factors mentioned above, Asia Aviation Plc recorded total revenues of Baht 9,399.0 million and a net loss of Baht 671.4 million in Q1/2020, reversed from a net profit of Baht 497.2 million from the same period last year.



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 period ended 31 March 2019 and 2020 has been summarised below:

Statement of Comprehensive Income

Asia Aviation Public Company Limited	Consolidated		
Unit: Baht million	For the three-month period ended 31 March		Change
	2020	2019	
Total revenues	9,399.0	11,618.2	-19%
Total expenses	10,767.8	10,493.4	+3%
Profit (loss) from operating activities	(1,368.8)	1,124.8	->100%
Profit (loss) for the period	(1,222.0)	903.5	->100%
Equity holders of the Company	(671.4)	497.2	->100%
Non-controlling interests of the subsidiary	(550.6)	406.3	->100%
Total comprehensive income for the period	(3,659.2)	903.5	->100%
Equity holders of the Company	(2,011.9)	497.2	->100%
Non-controlling interests of the subsidiary	(1,647.3)	406.3	->100%
Earnings (loss) Per Share (Baht)	(0.1385)	0.1025	->100%

In Q1/2020, Asia Aviation Plc had total revenues of Baht 9,399.0 million, decreased by 19 percent compared to the same period last year at Baht 11,618.2 million. Whereas, total expenses in a total of Baht 10,767.8 million, inched up by 3 percent from the same period last year. Therefore, a net loss for the period attributable to equity holders of the Company amounted to Baht 671.4 million, reversed from a net profit in an amount of Baht 497.2 million in Q1/2019, and basic loss was at Baht 0.1385 per share. Thus, a loss in total comprehensive income for the period attributable to equity holders of the Company amounted to Baht 2,011.9 million, reversed from a profit in total comprehensive income attributable to equity holders of the Company in an amount of Baht 497.2 million in the same period last year.

Statement of Financial Position

Asia Aviation Public Company Limited	Consolidated		Change
Unit: Baht million	As at 31 March 2020	As at 31 December 2019	
Total assets	76,321.4	62,902.6	+21%
Total liabilities	53,737.5	35,214.1	+53%
Equity attributable to owners of the Company	17,137.0	19,943.9	-14%
Non-controlling interests of the subsidiary	5,446.9	7,744.6	-30%
Total shareholders' equity	22,583.9	27,688.5	-18%

Assets

As at 31 March 2020, total assets amounted to Baht 76,321.4 million, increased by Baht 13,418.8 million or 21 percent compared to as at 31 December 2019, due to;

- (1) Current assets decreased by Baht 668.5 million, mainly from a decrease in the amounts due from related parties of Baht 1,646.5 million, despite an increase in cash and cash equivalents in an amount of Baht 868.2 million.
- (2) Non-current assets increased by Baht 14,087.3 million due to a recognition of the right of use assets in an amount of Baht 33,064.5 million from TFRS16 adoption. Whereas, the aircraft, leasehold improvement and equipment decreased in an amount of Baht 18,994.4 million, mainly from ten aircraft disposal.

Liabilities

As at 31 March 2020, total liabilities amounted to Baht 53,737.5 million, increased by Baht 18,523.4 million or 53 percent compared to as at 31 December 2019, due to;

- (1) Current liabilities increased by Baht 2,856.4 million, resulting from an increase in liabilities under lease agreements net with liabilities under finance lease agreements in an amount of Baht 4,106.4 million mainly due to TFRS16 adoption. Whereas, the unearned income decreased by Baht 1,982.5 million as tightened infection control measures and travel restrictions have slashed advance bookings.
- (2) Non-current liabilities increased by Baht 15,667.0 million, resulting from an increase in liabilities under lease agreements net with liabilities under finance lease agreements in an amount of Baht 18,274.6 million mainly due to TFRS16 adoption. Whereas, long-term borrowings from financial institutions decreased by Baht 1,927.8 million, owing to the repayments of liabilities and the interest paid.

Equity

As at 31 March 2020, total shareholders' equity amounted to Baht 22,583.9 million, decreased by Baht 5,104.7 million or 18 percent compared to as at 31 December 2019, mainly due to the loss for the period in an amount of Baht 1,222.0 million, the other comprehensive income for the period in an amount of Baht 2,437.1 million, and the accumulative effect of change in accounting policy in an amount of Baht 1,445.5 million. Hence, equity attributable to owners of the Company and non-controlling interests of the subsidiary as at 31 March 2020 amounted to Baht 17,137.0 million and Baht 5,446.9 million, respectively.

Statement of Cash Flows

Asia Aviation Public Company Limited	Consolidated	
Unit: Baht million	For the three-month period 31 March	
	2020	2019
Net cash generated from (used in) operating activities	(564.6)	276.0
Net cash generated from (used in) investing activities	12,963.5	(113.5)
Net cash generated from (used in) financing activities	(11,756.0)	(39.8)
Net increase (decrease) in cash and cash equivalents	642.9	122.7
Unrealised exchange gain (loss) on cash and cash equivalents	225.3	(19.3)
Cash and cash equivalents at the beginning of the period	<u>3,982.2</u>	<u>4,122.6</u>
Cash and cash equivalents at the end of the period	<u>4,850.4</u>	<u>4,226.0</u>

For the three-month period ended 31 March 2020, Asia Aviation had net cash used in operating activities in an amount of Baht 564.6 million mainly due to the operating loss in the period under review. While net cash generated from investing activities was at Baht 12,963.5 million, mainly from proceed of ten aircraft disposal. Net cash used in financing activities was Baht 11,756.0 million mainly due to payments for early termination of lease agreements and long-term borrowings together with repayment for liabilities under lease agreements and interest paid. As a result, the net increase in cash and cash equivalents amounted to Baht 642.9 million, while the cash and cash equivalents at the end of the period amounted to Baht 4,850.4 million.

Thai AirAsia's financial performance for the three-month period ended 31 March 2019 and 2020 has been summarised below:

Statement of Comprehensive Income

Thai AirAsia Company Limited Unit: Baht million	For the three-month period		Change
	ended 31 March		
	2020	2019	
Total Revenues	9,398.9	11,617.6	-19%
Total Expenses	10,769.5	10,493.5	+3%
Profit (loss) from operating activities	(1,370.6)	1,124.1	->100%
Net Profit (loss) for the period	(1,223.4)	902.9	->100%
Total comprehensive income for the year	(3,660.6)	902.9	->100%
Earnings (loss) per share (Baht)	(28.09)	20.73	->100%

In Q1/2020, the tourism industry has been challenged with the impact of COVID-19 pandemic, led to the tightened step to control the spread of the virus in various countries, including the banning on tourism activities, travel restriction, and the suspension of inbound foreign travellers. As a result, total revenues of Thai AirAsia amounted to Baht 9,398.9 million, decreased by 19 percent from the same period last year at Baht 11,617.6 million. Primarily, revenues from sales and services amounted to Baht 7,812.6 million, decreased by 30 percent from Baht 11,155.3 million in Q1/2019. This was mainly due to the number of passengers carried slumped by 23 percent, standing at 4.5 million, driven by a 41 percent decrease in international visitors. Thus, the capacity was rearranged to align with the lower travel demand. Consequently, the load factor in the said quarter recorded at 84 percent, down by 6 percentage points (“ppts”) compared to the same period last year. Additionally, the average fare in Q1/2020 decreased by 10 percent to Baht 1,401 per passenger. Meanwhile, ancillary revenues of Thai AirAsia in Q1/2020 declined by 28 percent from the prior year to Baht 1,474.2 million, mainly due to a decrease in revenues from checked baggage, inflight and seat selection, dragged down by a decrease in international passengers as aforementioned. Accordingly, the ancillary revenues per passenger was at Baht 325 per passenger or declined by 7 percent from the same period last year.

In Q1/2020, total expenses of Thai AirAsia amounted to Baht 10,769.5 million, increased by 3 percent from Baht 10,493.5 million in Q1/2019. However, the cost of sales and services amounted to Baht 8,050.6 million, decreased by 16 percent from Baht 9,169.0 million in Q1/2019, mainly from lower fuel cost due to less fuel consumption in relation to the international flight suspension. This also reflected to a decline in expenses related to ramp and airport operations, guest services and distribution. Whereas, the maintenance and overhaul expenses increased in line with the number of operating lease aircraft. Furthermore, the selling and administrative expenses amounted to Baht 622.0 million, declined by 29 percent mainly from the cost reduction on non-essential expense. However, the ASK declined by 30 percent with regards to capacity management in order to match the travel demand. For this reason, cost per available seat kilometres exclude fuel cost (CASK ex-fuel) was at Baht 1.29, rose by 29 percent from the same period



last year, taking into account of the lease interest and depreciation expenses from the implementation of TFRS16. Whereas, fuel costs per available seat kilometres was at Baht 0.56, up by 5 percent from the same period last year, mainly from the fuel hedging. In the said quarter, Thai AirAsia continuously monitors our punctuality, resulting in 93 percent of on-time performance (OTP), increased from 84 percent in Q1/2019.

In Q1/2020, Thai AirAsia recorded an unrealised loss on exchange in an amount of Baht 2,096.8 million, reversed from a gain on exchange in an amount of Baht 138.8 million in Q1/2019, mainly due to the exchange rate difference of lease liabilities. While the other income amounted to Baht 1,586.3 million mainly from the recognition of gain on the aircraft disposal in an amount of Baht 1,331.6 million. Hence, loss from operating activities in Q1/2020 amounted to Baht 1,370.6 million, given an earning before finance cost, income tax, depreciation and amortisation (EBITDA) margin of 9 percent. Moreover, finance costs increased mainly from interest expenses of lease liabilities under TFRS 16. Whereas, the income tax revenue amounted to Baht 690.4 million, reversed from the income tax expense of Baht 33.8 million in Q1/2019, mainly from an increase in deferred tax assets regard to the adoption of new financial reporting standards that became effective in the current period. In consequence, a net loss for the period amounted to Baht 1,223.4 million, having a net loss margin of 16 percent. With other comprehensive income from loss on cash flow hedges in an amount of Baht 3,046.5 million net with the income tax in an amount of Baht 609.3 million, a loss in total comprehensive income for the period amounted to Baht 3,660.6 million.

Thai AirAsia Company Limited	Q1/2020	Q1/2019	Change
Passenger Carried (Million)	4.53	5.86	-23%
Capacity (Million seats)	5.42	6.51	-17%
Load Factor (%)	84	90	-6 ppts
Revenue Passenger Kilometres (Million seats-km)	3,988	6,151	-35%
Available seat kilometres (Million seats-km)	4,834	6,874	-30%
Average fare (Baht)	1,401	1,554	-10%
Revenue per Available seat kilometres (Baht)	1.62	1.62	0%
Cost per Available seat kilometres (Baht)	1.85	1.53	+21%
Cost per Available seat kilometres (ex-fuel)(Baht)	1.29	1.00	+29%

Statement of Financial Position

Thai AirAsia Company Limited	As at	As at	Change
Unit: Baht million	31 March 2020	31 December 2019	
Total assets	54,107.3	39,067.0	+38%
Total liabilities	52,374.9	32,228.6	+63%
Total shareholders' equity	1,732.4	6,838.4	-75%

Assets

As at 31 March 2020, total assets amounted to Baht 54,107.3 million, increased by Baht 15,040.3 million or 38 percent compared to as at 31 December 2019, due to;

- (1) Current assets decreased by Baht 669.9 million, mainly from a decrease in the amounts due from related parties of Baht 1,646.5 million, despite an increase in cash and cash equivalents in an amount of Baht 866.6 million.
- (2) Non-current assets increased by Baht 15,710.2 million due to a recognition of the right of use assets in an amount of Baht 33,064.5 million from TFRS16 adoption. Whereas, the aircraft, leasehold improvement and equipment decreased by Baht 18,994.4 million, mainly from ten aircraft disposal.

Liabilities

As at 31 March 2020, total liabilities amounted to Baht 52,374.9 million, increased by Baht 20,146.4 million or 63 percent compared to as at 31 December 2019, due to;

- (1) Current liabilities increased by Baht 2,856.5 million, resulting from an increase in liabilities under lease agreements net with liabilities under finance lease agreements in an amount of Baht 4,106.4 million mainly due to TFRS16 adoption. Whereas, the unearned income decreased by Baht 1,982.5 million as tightened infection control measures and travel restrictions have slashed advance bookings.
- (2) Non-current liabilities increased by Baht 17,289.9 million, resulting from an increase in liabilities under lease agreements net with liabilities under finance lease agreements in an amount of Baht 18,274.6 million mainly due to TFRS16 adoption. Whereas, long-term borrowings from financial institutions decreased by Baht 1,927.8 million, owing to the repayments of liabilities and the interest paid.

Equity

As at 31 March 2020, total shareholders' equity amounted to Baht 1,732.4 million, decreased by Baht 5,106.1 million or 75 percent compared to as at 31 December 2019, mainly due to the loss for the period in an amount of Baht 1,223.4 million, the other comprehensive income for the period in an amount of Baht 2,437.2 million, and the accumulative effect of change in accounting policy in an amount of Baht 1,445.5 million. Thai AirAsia's Debt-to-Equity ratio (Interest Bearing Debt) and Net Gearing ratio as at 31 March 2020 were 24.13x and 21.39x, respectively. Excluding the lease liabilities under TFRS16, D/E Ratio and Net Gearing Ratio were 7.11x and 4.37x, respectively.

Statement of Cash Flows

Thai AirAsia Company Limited	For the three-month period 31 March	
Unit: Baht million	2020	2019
Net cash generated from (used in) operating activities	(566.2)	272.9
Net cash generated from (used in) investing activities	12,963.5	(113.5)
Net cash generated from (used in) financing activities	<u>(11,756.1)</u>	<u>(39.8)</u>
Net increase (decrease) in cash and cash equivalents	641.2	119.6
Unrealised exchange gain (loss) on cash and cash equivalents	225.3	(19.3)
Cash and cash equivalents at the beginning of the period	<u>3,889.6</u>	<u>4,037.0</u>
Cash and cash equivalents at the end of the period	<u>4,756.1</u>	<u>4,137.3</u>

For the three-month period ended 31 March 2020, Thai AirAsia had net cash used in operating activities in an amount of Baht 566.2 million due to the operating loss in the period under review. While net cash generated from investing activities was at Baht 12,963.5 million, mainly from proceed of ten aircraft disposal. Net cash used in financing activities was Baht 11,756.1 million mainly due to payments for early termination of lease agreements and long-term borrowings together with repayment for liabilities under lease agreements and interest paid. As a result, the net increase in cash and cash equivalents amounted of Baht 641.2 million, while the cash and cash equivalents at the end of the period amounted to Baht 4,756.1 million.

Business Outlook

The global economy in 2020 is encountered a new challenge after the World Health Organization (WHO) declared the COVID-19 outbreak as a global pandemic, resulting in the disruption of various dimensions of economic activities. The world economy may be heading for recession in the second quarter of 2020 (Q2/2020). It will likely set the stage of recovery in the third quarter this year, depending on an improvement in the pandemic control. As a result, the International Monetary Fund (IMF) estimated the global economy to contract by 3 percent in 2020. Furthermore, the Federal Reserve (Fed) announced USD2.3 trillion in programs, injected to the economy system in an attempt to shield the economy from COVID-19 impact. Nonetheless, Fed makes a second-emergency rate cut to a range between 0.00 - 0.25 percent, which causes volatility in the US dollar against Thai Baht. As the Company has revenues and expenses in various currencies such as passenger fares, repair and maintenance costs 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 drops sharply, compared to the same period last year. This was mainly due to the plunge in global oil demand in tandem with worldwide manufacturing. Even though the Organization of the Petroleum Exporting and its partners including Russia (OPEC+) have agreed to cut production by 9.7 million barrels a day, starting from May 1 to June 30, 2020,

then the cuts will decline to 7.7 million barrels a day in July to December 2020. The supply-demand balance is foreseen to improve in the second half of the year (2H/2020). However, the risk factors remain, putting the pressure on global oversupply. In an attempt to minimise the impact of the constant fluctuation in fuel costs, Thai AirAsia has the fuel hedging policy as a tool to mitigate its exposure to volatility. In 2020, Thai AirAsia has hedged 66 percent of the total budgeted fuel requirement at an average Brent price of USD 60.8 per barrel.

The Bank of Thailand (BoT) predicted that the Thai economy in 2020 would contract by 5.3 percent, primarily from the loss in revenue of tourism, service, and private consumption. Besides, the decline in trade volume in parallel a shrinking global economy and the lower production, caused by drought disaster. However, Thailand's economy still has been supported from the government measures to alleviate the effects of the COVID-19, covering the employee, entrepreneur and farmer, which is the biggest population. At the same time, BoT cuts its policy rate to 0.75 percent and seeks to shore up the liquidity and stability of the financial and capital market.

Tourism Authority of Thailand (TAT) projected in April that the number of international tourists in 2020 stands at 16 million visitors, or down 60 percent from the previous year with a receipt of Baht 0.74 trillion. Meanwhile, domestic visitors will likely plunge to 68 million trips, with a receipt of Baht 0.4 trillion. This could generate a revenue of Baht 1.14 trillion. However, the estimation above is depending on the improvement of the pandemic situation. Meanwhile, the Asian aviation market is expected to be the leading region to reinstate their services before other areas,



after making progress and getting close to eradicating the spread and signalling an opportunity for softening of restrictions.

The impact of COVID-19 and the company mitigation plans

Thai AirAsia announced to suspend operations on all international flights from March 22 to May 31, 2020, in accordance with a declaration from the Civil Aviation Authority of Thailand (CAAT) and all domestic flights from April 1 – 30, 2020, affecting the core revenue of the Company. With proactive management, the Company realigns its network by reducing the frequency or suspending flights and reallocates its capacity to align with lower demand. Furthermore, Thai AirAsia focuses on cost-cutting initiatives by negotiating with all stakeholders and suspending the significant capital expenditures to delay the cash

outflow and stabilise the liquidity and financial status. In term of operations, the Company continues to monitor the situation and prepares to reinstate the services as soon as the situation improves, subject to the necessary regulatory approvals.

For the year 2020, Thai AirAsia revises down its passenger target to 10.8 million or down 51 percent from last year, while aiming for a load factor of 80 percent, trimmed by 5 ppts. This forecast is based on the assumption that domestic tourism will start to recover after easing of lockdown measures and will rebound in the late Q2/2020. Whereas the resumption of international services should come in August to serve travel demands. Notably, Asian travellers tend to be the first group to recover, depending on the improvement of the travel restrictions and the eradication of COVID-19.

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 divided by ASK

Cost per ASK (CASK ex-fuel) : Calculated as the sum of Thai AirAsia's operating costs, selling expenses and administrative expenses 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 and cash equivalents + short-term investment + deposit) divided by total equity

Gross profit margin = Calculated as revenues from sales and services less cost of sales and service divided by revenues from sales and services

The earnings before interest and tax, depreciation, and amortisation (EBITDA) margin = Calculated as total income (excluding dividend income, gain on sale of investments, gain on sale of assets, finance income, gain on exchange rate, and gain on derivative) less total expenses plus depreciation and amortisation expenses divided by revenues from sales and services

Net profit margin = Calculated as profit for the period divided by revenues from sales and services

