

Asia Aviation (AAV TB)

The market leader

Strong earnings growth with multiple upside

We re-initiate coverage with a BUY and target price of THB3.40, based on 13x FY25E P/E, the average for low-cost airlines in Asia Pacific. We view the current valuation at 11x P/E as attractive in light of 12% EPS growth in FY24-26E. AAV is our Top Pick among Thai airlines, given its leadership in the domestic market and potential for revenue growth from new international routes. AAV also stands to benefit from lower fuel costs and peaking maintenance expense. A potential merger with Thai AirAsia X and overseas route expansions could offer upside through cost savings and improved passenger connectivity. Downside risks include a quicker-than-expected recovery in capacity from rival airlines and higher fuel costs.

Domestic market leader

AAV has been gaining market share for both domestic and international routes in Thailand thanks to its ability to ramp up capacity ahead of other airlines, particularly in the domestic market. We expect AAV's average fare to stay high in FY25-26E, supported by slow ramp-up in airline capacities and new route expansions, mainly to India and China. We expect India and China routes to contribute one-third of 2025-26E revenues.

Potential consolidation of TAAX

AAV could potentially acquire TAAX (its international sibling carrier), a similar move we saw in early 2024 when AirAsia X acquired its airline business from Capital A. We estimate TAAX to add 15% earnings upside to AAV in 2025E. We also see long-term upside from recent merger of AirAsia X (AAX) and Capital A. This is likely to come in the form of operational synergy within the group and higher bargaining power with suppliers and aircraft lessors.

Upside from adding more flights to new routes

We also expect upside from route expansion overseas, which should enhance passenger yield. We expect AAV to provide services for more than 500 weekly international flights within Dec'24, an increase from 450 flights per week in 2023. AAV has been able to rotate its capacity to serve other high-yield markets such as India, where seasonality for outbound travel is different from that of China. Therefore, we expect AAV fleet utilization rate and load factor to remain high at 90% in FY24-26E.

FYE Dec (THB m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	17,553	41,241	47,226	52,756	54,874
EBITDAR	(851)	7,410	10,787	11,385	11,867
Core net profit	(8,030)	466	2,855	3,301	3,607
Core EPS (THB)	(0.66)	0.04	0.22	0.26	0.28
Core EPS growth (%)	nm	nm	512.8	15.6	9.3
Net DPS (THB)	0.00	0.00	0.00	0.00	0.14
Core P/E (x)	nm	54.9	12.7	11.0	10.0
P/BV (x)	4.7	3.0	3.2	2.5	2.0
Net dividend yield (%)	0.0	0.0	0.0	0.0	5.0
ROAE (%)	(48.2)	3.0	29.0	25.6	22.0
ROAA (%)	(11.8)	0.7	4.1	4.6	4.9
EV/EBITDAR (x)	nm	7.7	5.8	5.2	4.7
Net gearing (%) (incl perps)	81.7	87.7	37.0	12.4	net cash
Consensus net profit	-	-	2,603	2,938	3,022
MIBG vs. Consensus (%)	-	-	9.7	12.4	19.4

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BUY

Share Price THB 2.82
12m Price Target THB 3.40 (+21%)

Company Description

AAV operates Thai AirAsia Co an airline with the highest domestic market share of 39% in 2024

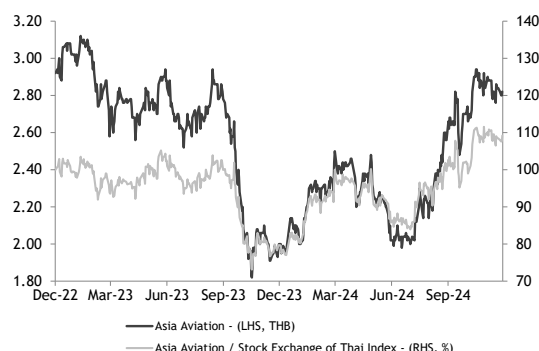
Statistics

52w high/low (THB)	2.94/1.95
3m avg turnover (USDm)	5.8
Free float (%)	36.1
Issued shares (m)	12,850
Market capitalisation	THB36.2B USD1.1B

Major shareholders:

AIRASIA AVIATION GROUP, Ltd	40.7%
MR. TASSAPON BIJLEVELD	17.8%
Thai NVDR Co., Ltd	10.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	10	46
Relative to index (%)	(2)	10	39

Source: FactSet

Link to sector note:

[Thailand Aviation - Strong profit era | POSITIVE
INITIATION](#)

Terms explained

TAAX - Thai AirAsia X
SAF - Sustainable Aviation Fuel
BKK - Suvarnabhumi International Airport
DMK - Don Mueang International Airport
AOT - Airports of Thailand

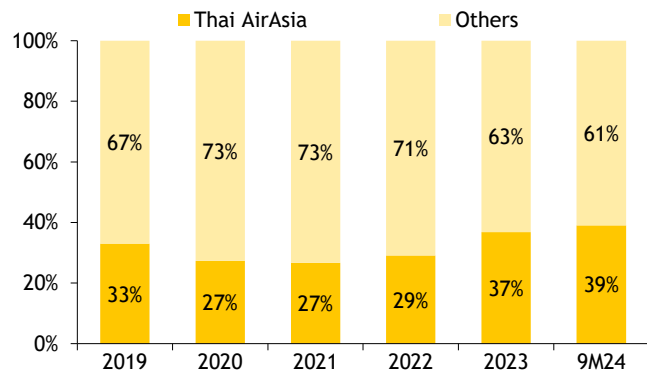
Other stocks mentioned

AirAsia X (AAX MK, CP MYR1.92, BUY MYR2.71)
Capital A (CAPITALA MK, CP MYR1.03, HOLD TP MYR1.00)
Thai AirAsia X (Not listed)
AirAsia (Mauritius) Ltd (Not listed)

Value Proposition

- AAV owns Thai AirAsia Co. which operates an airline business in Thailand with the highest domestic market share of 39% in 2024, up from 33% in 2019.
- AAV receives support from its Malaysian parent, Capital A, such as the use of the AirAsia trade name for its operations, access to market insights, and customer service resources.
- Post-Covid, AAV is benefiting from strong demand in the domestic sector, which enables it to charge higher average fares.

AAV domestic market share

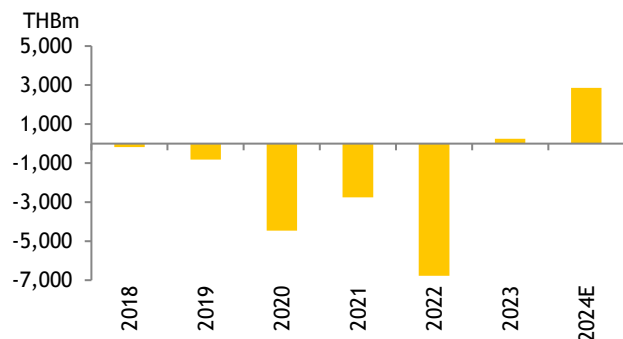


Source: Company

Financial Metrics

- The company faced the pandemic in FY20-22, which weakened its financial position and earnings.
- It successfully raised THB14b capital in Jan'22 in order to acquire Thai AirAsia (TAA), increase working capital, and repay debt.
- We expect the company's retained earnings to turn positive in FY26E due to continued growth in revenue and stabilized costs.
- It booked positive earnings from operations for the first time in FY23 thanks to strong recovery in both domestic and international demand.

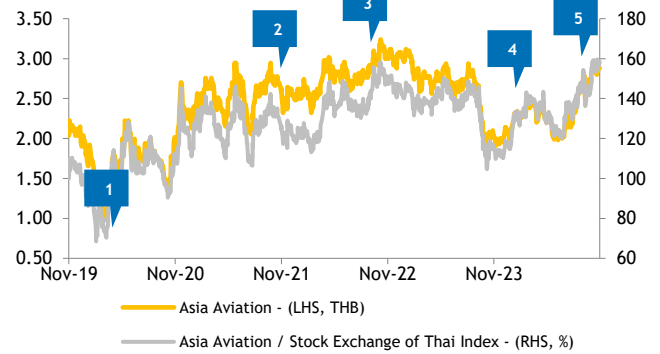
AAV core earnings in THBm



Source: Company data, MST

Price Drivers

Historical share price trend



Source: Company, MST

1. Covid-19 ceased air travel mainly across international borders.
2. AAV's board of directors approved AAV and Thai AirAsia's shareholding restructuring plan and fundraising worth THB14b to acquire all Thai AirAsia shares.
3. The govt. the reopening of international borders.
4. Re-emergence of travel demand despite capacity constraints.
5. Declining oil price and strengthening THB against USD.

Swing Factors

Upside

- Prolonged supply constraints that could lead to continued increase in air fare
- Declining trend of jet fuel price
- Higher-than-expected demand from foreign tourists.

Downside

- Earlier-than-expected recovery in industry seat supply could lead to declining air fare.
- Escalated war in Middle East and OPEC production cut could lead to resurging oil price.
- Slowdown in tourist demand of travel following weak macroeconomic condition

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Risk Rating & Score ¹	34.0 High Risk
Score Momentum ²	-2.5
Last Updated	27 Apr 2024
Controversy Score ³ (Updated: 13 Dec 2024)	None

Business Model & Industry Issues

- Aviation accounts for 2.5% of global CO₂ emissions while it has contributed around 4% to global warming. Therefore airlines including AAV must help industry to overcome over pollutant issue.
- AAV follows long-term objectives of the International Civil Aviation Organization with the aim of achieving Net Zero emissions by 2050. Invest effectively in fleet and upgrade its efficiency to reduce fuel usage and carbon emissions. The company also explores opportunities to reduce carbon emissions, especially through SAF and carbon offsets.
- The Company maintains a policy supporting a culture of diversity, acceptance and that does not discriminate based on gender, nationality, ethnicity, age, ability, sexual orientation or other conditions.

Material E issues

- AAV contacted domestic SAF suppliers to study production plan, distribution quantities, production methods, locations, initial costs, etc. The SAF inclusion mandate will be enacted in 2026 with 1% of total fuel consumption
- AAV adopted innovations to reduce resource usage and waste, such as E-boarding to reduce paper while improving the efficiency of the passenger check-in process.
- AAV switched to environmentally-friendly packaging with engraved water bottles reducing the need for printed labels while also aiding in recycling.

Material S issues

- AAV strives to be an industry leader in supporting women in all roles, including in Science, Engineering and Mathematics (STEM) fields. It respects the basic human rights of its employees, business partners and other relevant groups and do not exploit child labour or forced labour.
- AAV's employees received an average 24 hours of specialised training and 2 hours of fundamental training per year. The company targeted to deliver on-time performance of 90% for its passengers.

Key G metrics and issues

- AAV publishes its corporate governance policy on its annual and sustainability reports including its own website (www.aavplc.com/).
- The remuneration committee determines the salary and bonuses of senior management every year, based on the individual's and corporate's performances.
- Thai AirAsia paid the remuneration to management at the total amount of THB105.2m, equivalent to 3.03%, compared with the total remuneration of the company.
- Four out of 12 directors on the board of directors are independent and 1 is women.
- In 2023, AAV paid THB5.3m (for THB1.0m for AAV and THB4.3 m for subsidiaries) to EY for the auditing.
- All members in the audit committee are independent.
- AAV provides whistle-blower services where staff can anonymously report corporate governance issues directly to the president of the audit committee, through e-mail, or physical documents.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 33)						
	Particulars	Unit	2021	2022	2023	BA
E	Scope 1 GHG emissions	m tCO ₂ e	202,889	662,780	1,431,561	288,794
	Scope 2 GHG emissions	m tCO ₂ e	929	672	1,726	4,428
	Total	m tCO₂e	203,818	663,452	1,433,287	293,222
	Scope 3 GHG emissions	m tCO ₂ e		143,191	309,122	N/A
	Total	m tCO₂e	203,818	806,643	1,742,409	293,222
	CO ₂ Emissions per RPK	(gCO ₂ /RPK)	97.4	76.8	71.8	118.1
	Water Consumption on Domestic Flights	litres/ flight	50.9	53.2	57.5	N/A
	Recycled non- hazardous waste	kg.	32,275	100,359	284,498	N/A
	Electricity intensity at airport	kWh/THBm	485.5	88.8	97.1	N/A
	Annual amount of hazardous waste	kg.	2,148	5,155	3,671	N/A
Water Consumption on Domestic Flights	litres per flight	50.9	53.2	57.5	N/A	
Non-hazardous waste recycle rate	%	88.1	100%	100%	N/A	
S	Share of women in total workforce	%	35.7%	36.3%	38.6%	50.5%
	Share of women in management roles	%	NA	15.2%	18.8%	N/A
	Number of work-related accidents	time	1	6	3	N/A
	Average training hours	hours	24	26	29	N/A
	Voluntary Employee Turnover Rate	%	3.9%	4.7%	6.2%	N/A
	Customer's satisfaction score (NPS)	%	56.0%	55.0%	59.0%	94.2%
	Employee Lost Time Injury Frequency Rate	rate/1m hours	2.08	1.12	1.16	0.43
G	Management as % of reported revenue	%	1.6%	0.5%	0.3%	0.7%
	Independent directors on the Board	%	33.3%	33.3%	33.3%	20.0%
	Female directors on the Board	%	8.3%	8.3%	8.3%	20.0%

Qualitative Parameters (Score: 83)	
a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee?	<i>Yes. AAV's has a board corporate governance and sustainability committee as a separate part from risk management committee</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>None found</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes, AAV conducts thorough analyses aligned with the Task Force on Climate-related Financial Disclosures (TCFD) framework</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes, these include upstream jet fuel production by suppliers and employee who travel for business purpose</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<ul style="list-style-type: none"> - AirAsia Group ordered 362 Airbus A321neo to meet our fleet replacement and expansion requirements through to 2035. The aircraft consume approximately 15-20% less fuel. This approach will cut carbon emissions by up to 24% compared to the current A320 fleet. - AAV monitors, tracks, and analyses the amount of water consumed in each of its operational areas and on flights while also working to recycle water from processes for maximum utilisation - Adoption of Sustainable Aviation Fuel (SAF) in the place of JET A-1 fuel to further reduce carbon emission
g) Does buying/developing carbon offsets/credit form part of the strategy to achieve emissions reduction/net zero/carbon neutrality?	<i>Yes, the group is exploring CORSIA certified carbon projects in ASEAN for carbon offsetting</i>

Target (Score: 83)			
Particulars		Target	Achieved
CO ₂ emissions do not exceed 85% of level in 2019		85%	84%
Water Consumption on Domestic Flights (litres per flight)		60	57.5
Recycle 50% of waste water		50%	NA
Bringing down the amount of carbon dioxide emissions per revenue passenger kilometre by 3 gCO ₂ /RPK through to 2025		3	5
Achieve Net Zero Carbon by 2050		2050	N/A
Impact			
NA			
Overall Score: 58			
As per our ESG matrix, Asia Aviation (AAV TB) has an overall score of 58.			

ESG score	Weight		Final Score
	s	Scores	
Quantitative	50%	33	17
Qualitative	25%	83	21
Target	25%	83	21
Total			58

As per our ESG assessment, AAV has an established framework, internal policies, and tangible medium/long-term targets but needs to make headway in improving its quantitative "E" metric, especially in terms of GHG emission data collection. AAV's overall ESG score is 58, which makes its ESG rating above average in our view (average ESG rating = 50).

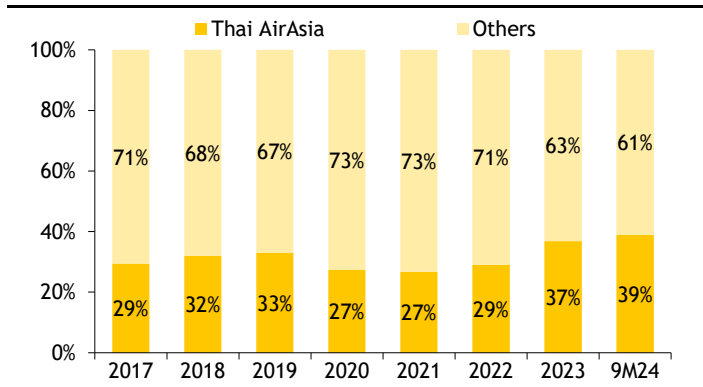
1. Growth

1.1 Market share leader in Thailand

AAV continues to maintain its leadership in Thailand by increasing its domestic market share to 39% in 2024, up from 33% in 2019. The second- and third-largest competitors each hold less than 15% market share. The company is benefiting from strong demand in the domestic sector, which enables it to charge higher average fares. Additionally, key domestic rivals are hesitant to increase seat capacity, while Thai Airways’ business rehabilitation plan favours AAV by allowing it to capitalize on its fleet recovery, which is progressing at a faster pace than that of its peers.

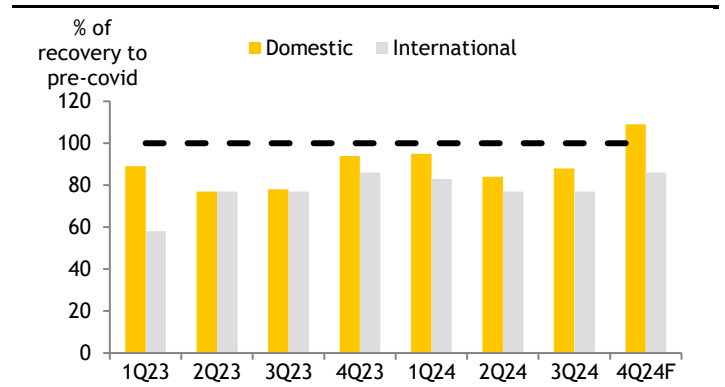
We expect AAV’s earnings to grow strongly over FY24-26E, with a 12% CAGR, driven by continued increases in average fares and the ability to gain market share ahead of rivals in the domestic market. Operating costs should remain stable throughout this period, as we expect relatively low oil prices (Brent at USD70-72/bbl vs 82 in 2024), while maintenance costs are nearing their peak.

Fig 1: AAV’s domestic market share



Source: CAAT, MST

Fig 2: AAV’s capacity development plan (% of pre-Covid level)



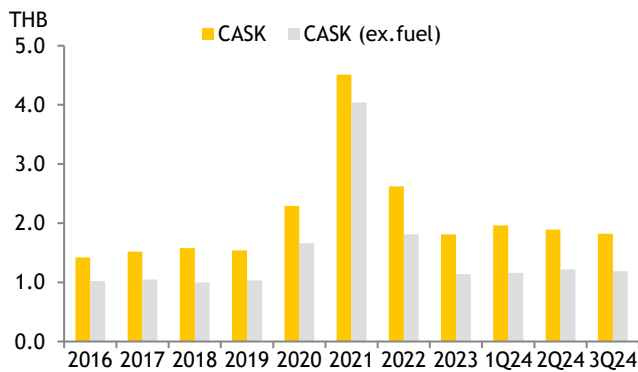
Source: Company data, MST

1.2 Cost-saving to boost the bottom-line

We expect AAV’s cost-saving programme to continue to yield benefits to the bottom line as operating costs should increase at a lower rate than top line in FY25-26E. We expect maintenance and staff expenses, which represented 16% and 10% of total operating cost to increase by 3% and 12% respectively. (vs. revenue at +12% in FY25E). The company spent heavily on maintenance, worth THB18b in FY22-24E to revamp its fleets back to full operation after being grounded during Covid period. As of 4Q24, the company has 56 flying aircraft compared to 63 units in FY19.

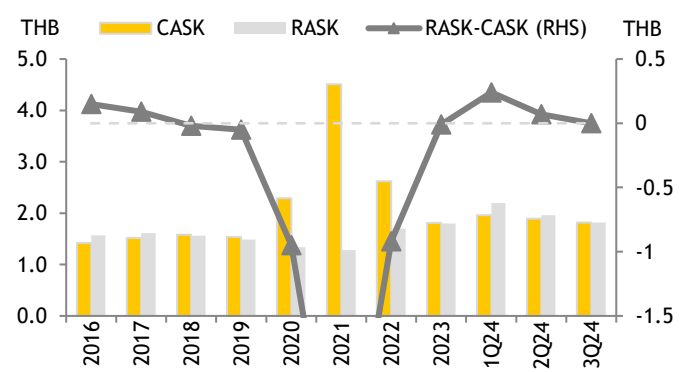
We also anticipate earnings upside from reduced fuel consumption per kilometer flown, thanks to greater fuel efficiency of the upcoming A321LR and A321XLR aircraft models, which will be leased from late FY25. Assuming stable oil prices in 2025-26E, we expect CASK to remain lower than RASK, leading to significant improvements in margins and earnings.

Fig 3: AAV's CASK and CASK (ex. fuel)



Source: Company data, MST

Fig 4: AAV's RASK-CASK



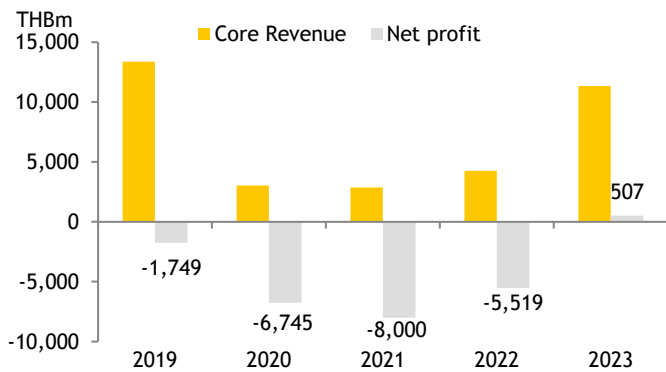
Source: Company data, MST

1.3 Upside from consolidating with Thai Air Asia X

AAV could potentially acquire Thai AirAsia X (TAAX), similar to the move in early 2024 when AirAsia X announced the acquisition of the airline business from Capital A. We estimate acquiring TAAX could add 15% earnings upside to AAV's core profit forecast, bringing it to THB3.8-3.9b in FY25E. This acquisition would likely be value-accretive for AAV if TAAX's valuation is around 10-11x PE. We also anticipate further upside from cost savings on overlapping expenses, such as rental and administrative costs, as well as enhanced passenger connectivity between international and domestic routes. However, AAV recently said it's currently not considering this transaction. As such, we have not factored it into our forecasts.

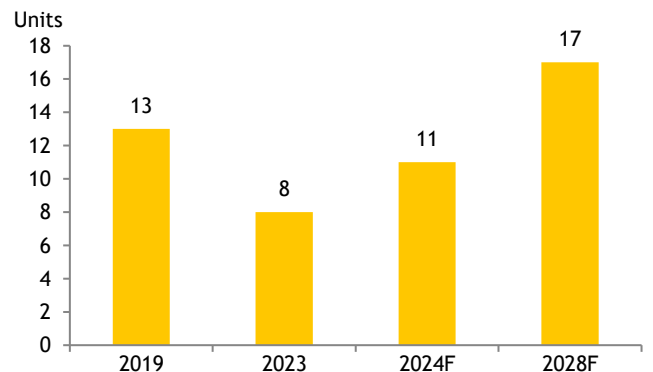
Thai AirAsia X currently operates a fleet of 8 Airbus A330 aircraft and plans to expand to 17 by 2028. Currently, the airline flies from Bangkok to 7 core destinations: Tokyo, Osaka, Sapporo, and Nagoya in Japan; Seoul in South Korea; Shanghai in China; and Sydney in Australia. AAV is likely to benefit from increased passenger traffic on its domestic routes due to inbound tourists originating from TAAX's destinations. This synergy is expected to improve further once both airlines operate from the same hub at DMK airport. However, without consolidation of TAAX, we still expect benefits from centralized costs savings, which will partly be reflected in lower administration-to-sales ratio.

Fig 5: TAAX's core revenue and earnings



Source: DBD, MST

Fig 6: TAAX's fleet expansion plan



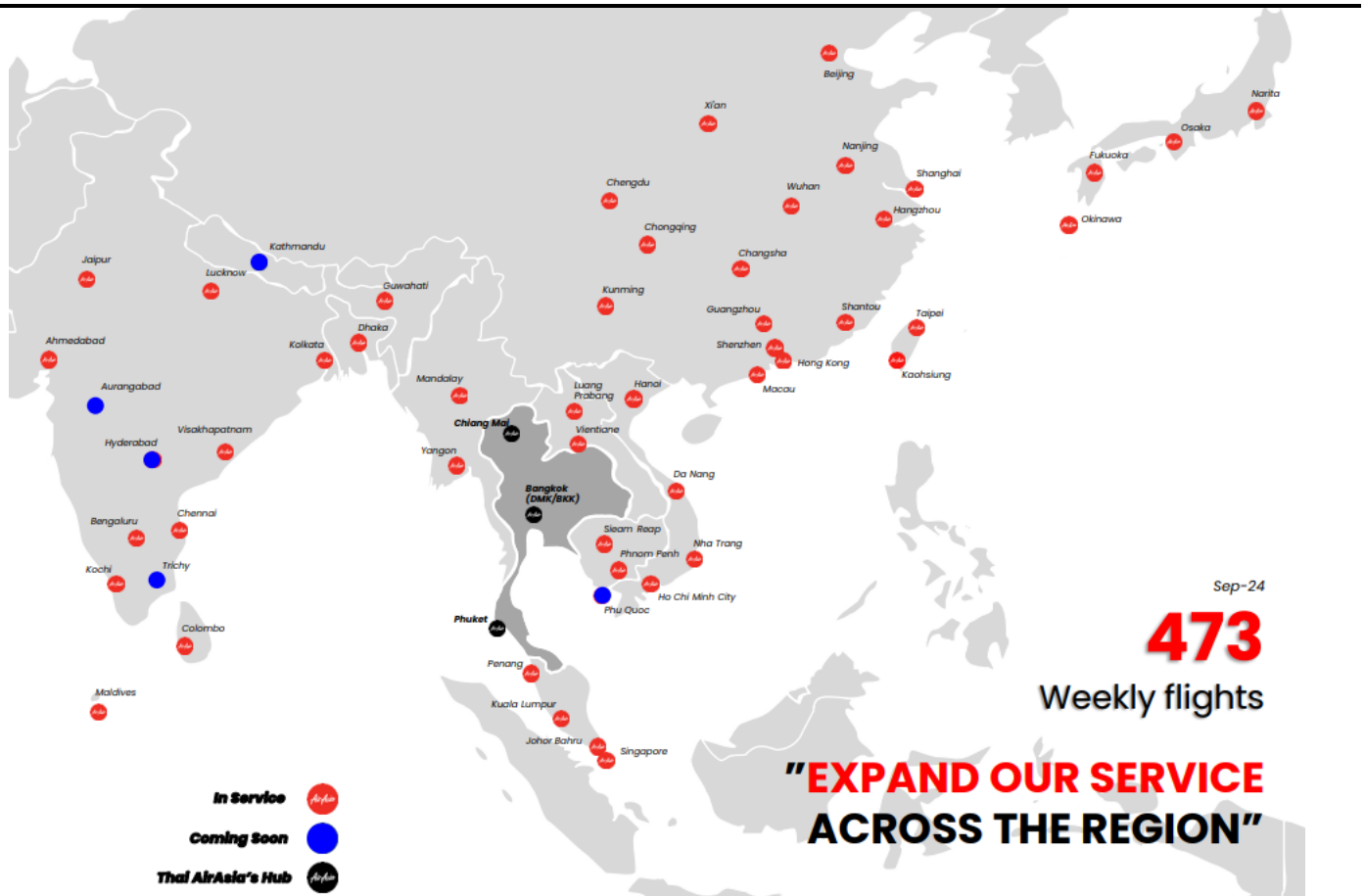
Source: Company data, MST

2. Corporate information

2.1 Company background

AAV is a holding company focused solely on investing in Thai AirAsia, a low-cost airline operating a fleet of Airbus A320 family aircraft, including A320 and A321 models. The company generates revenue from scheduled passenger services as well as from ancillary services.

Fig 7: AAV international routes and destinations



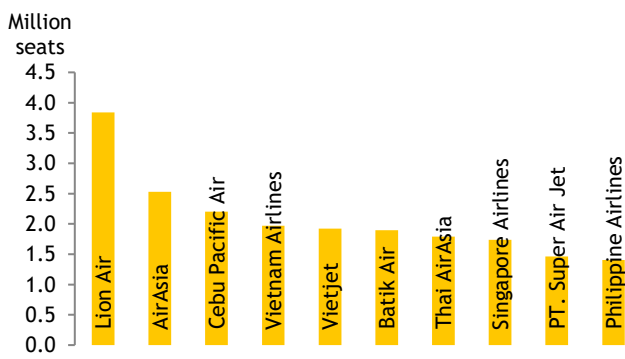
Source: AAV

2.2 Capital A Berhad as its supporter

AAV receives support from Capital A in several areas, including the use of the AirAsia trade name for its operations, access to market insights, and customer service resources. Currently, the company leases its aircraft from AirAsia (Mauritius) Ltd. ("AAM"), a subsidiary of AirAsia Berhad (AAB). AAV also has access to spare parts provided by AAB. For aircraft procurement, AAB consolidates the requirements of each Capital A member, including AAV, and places a collective order with Airbus. This group procurement approach allows the company to benefit from bulk discounts off the standard list price.

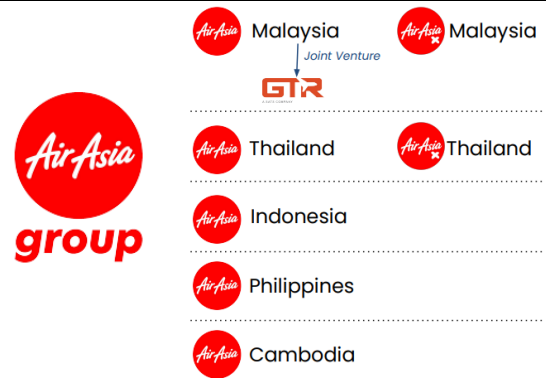
AAV also benefits from cost savings on shared expenses within the group, such as airport ground services at certain airports, fuel hedging, ticket reservation software, and passenger rewards programmes. Despite these advantages, AAV's board of directors and audit committee must provide approval before the company engages in such activities.

Fig 8: Top 10 Airlines in ASEAN by Seats



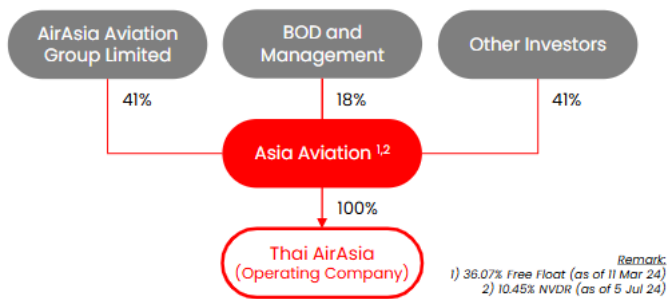
Source: Company data, MST

Fig 9: AirAsia Aviation Group



Source: Capital A

Fig 10: AAV shareholding structure



Source: AAV

We also see long-term upside from the recent announcement of the merger between AirAsia X (AAX) and Capital A. This is expected to result in economies of scale and increased bargaining power with suppliers. Additionally, the merger will enhance network capacity and strengthen connectivity. Capital A aims to complete the merger by 1Q25.

The process involves AAX acquiring the aviation business from Capital A, including AirAsia Berhad, based in Malaysia, and AirAsia Aviation Group, which operates in Thailand, Indonesia, the Philippines, and Cambodia. These entities will integrate into a newly established company called AirAsia Aviation Group. This merger will increase flexibility for all airlines involved, enabling them to expand into new routes by deploying a combination of wide-body and narrow-body aircraft, similar to how major airlines like Emirates and Qatar Airways operate. As a result, the merger should lead to cost savings through centralized expenses and enhanced bargaining power with aircraft lessors, spare parts manufacturers, and fuel suppliers. Additionally, the acquisition provides access to over 200 operating aircraft and a future order book of 361 aircraft from Capital A’s aviation portfolio, which will help expand their reach and enhance competitiveness in the global aviation industry.

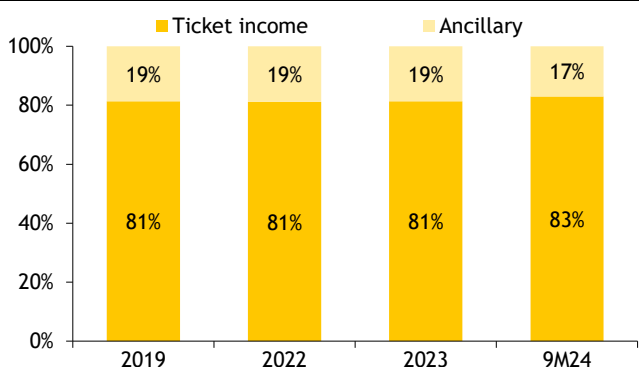
2.3 Revenue structure

AAV operates scheduled passenger air travel services at fares lower than full-service airlines. Ticket revenue accounted for 81%, 81%, and 83% of revenues from sales and services in FY22, FY23, and 9M24 respectively.

Its air tickets do not include services such as baggage fees, seat selection fees, onboard food and beverages, and other services. These items are considered ancillary services, which significantly contribute to enhancing the bottom line, especially if their revenue share increases alongside the company’s core revenue from scheduled passenger services. Ancillary revenue accounted for 19%, 19%, and 17% of total revenue from sales and services in FY22, FY23, and 9M24, respectively. The drop in contribution from the ancillary segment was due to the continued surge in airfares.

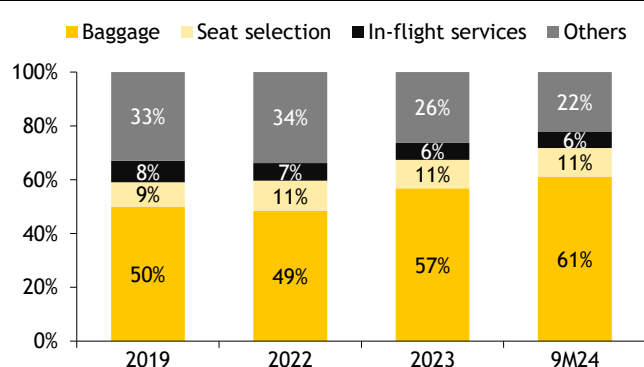
Other revenues include freight (AirAsia Cargo), charter flight revenues, advertising revenue, and other in-flight revenue.

Fig 11: Core revenue breakdown by business segments



Source: Company data, MST

Fig 12: Ancillary revenue breakdown



Source: Company data, MST

2.4 Cost structure

Fuel is typically a major cost component for airlines. AAV’s fuel costs accounted for 35%, 42%, and 41% of the costs of services in FY22, FY23, and 9M24, respectively. Due to the high volatility of oil prices, the company has made significant efforts to minimize fuel consumption, including precise flight planning to reduce fuel burn and the implementation of Green Operations to lower greenhouse gas emissions. Fuel price hedging tools were used during the pre-Covid period. However, heavy losses from hedging and the declining oil price trend led most airlines, including AAV, to remain unhedged in the post-Covid era.

Maintenance and overhaul costs for aircraft accounted for 17-19% of total cost of services in FY22-9M24. The amount will depend on aircraft checking activities following flight resumption, coupled with higher aircraft utilization and flight frequency.

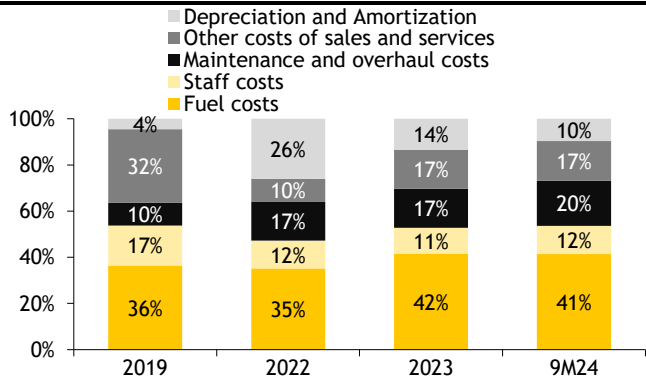
Salaries, wages and other employee benefits accounted for 11-12% of costs of services in FY22-9M24. Payrolls for pilots, cabin crew and ground staff increase along with flight number and operating hours.

Depreciation and amortization accounted for 26%, 14%, and 10% of the company’s total cost of services in FY22, FY23, and 9M24, respectively. A substantial drop in the portion was due to an absence of variable costs such as fuel as the majority of its fleet was grounded in FY22. Aircraft lease is the primary expense recognized as depreciation. AAV leases its aircraft and

engines from Capital A’s subsidiary, benefiting from a pooled purchasing arrangement that provides greater bargaining power with manufacturers. Aircraft lease rates are quoted in USD, with monthly payments and an average contract period of 12 years. The second-largest expense is aircraft maintenance reserves, which are recognized as amortization.

SG&A expense accounted for 7% of total expense in 2022-9M24. This is mainly attributed to the amount of sale commissions for transactions made through AirAsia Com Travel as AAV has around 50% of ticket revenue from this channel.

Fig 13: Cost of sales and services breakdown by items



Source: Company data, MST

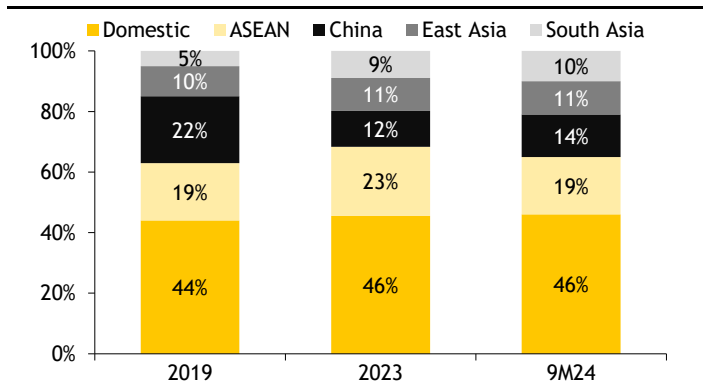
3. Investment Focus

3.1 Upside from increasing routes and average fare

Major players such as THAI continue to reallocate some of their fleets to service international routes, a move that may have supported AAV's strength in the domestic market. We expect slow growth in supply to benefit AAV by reducing competition, allowing it to charge higher airfares. AAV still has significant room to increase its average fare domestically, as its current average is well below the ceiling set by the CAAT. Additionally, AAV holds the largest market share on 32 inter-regional routes that are exempt from fare caps, such as Chiang Mai-Phuket and Chiang Mai-Hat Yai.

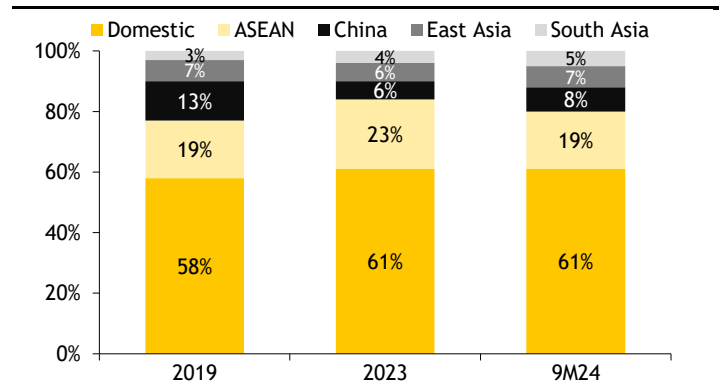
The AAV's domestic segment showed a faster-than-industry recovery in 9M24, with 97% of passenger levels restored compared to pre-Covid figures, outperforming the overall domestic recovery rate of 88%. Meanwhile, AAV's international passenger numbers have recovered to 83% of 2019 levels. In 2023, among passengers from 16 countries/cities, only those from China, Hong Kong, Macau, Myanmar, and Cambodia remained below 2019 levels, while the rest had already surpassed them. Chinese tourist arrivals in Thailand are still lagging the rest of the market, but we expect full recovery by 2026.

Fig 14: Revenue contribution by geography



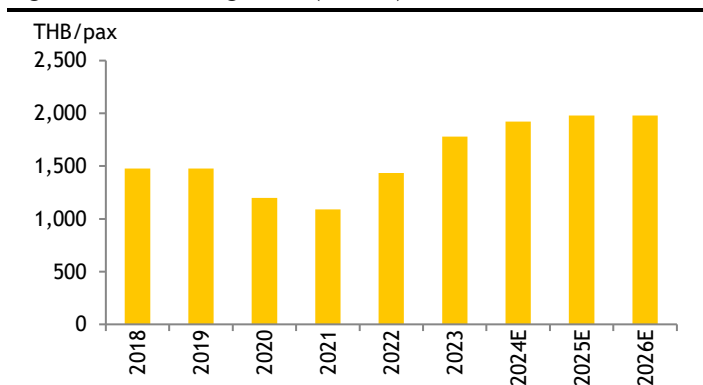
Source: Company data, MST

Fig 15: Capacity allocation by geography



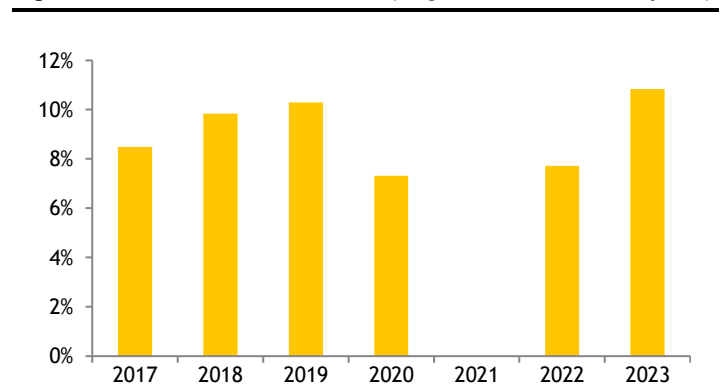
Source: Company data, MST

Fig 16: AAV's average fare (annual)



Source: Company data, MST

Fig 17: International market share (originated from Thai airports)

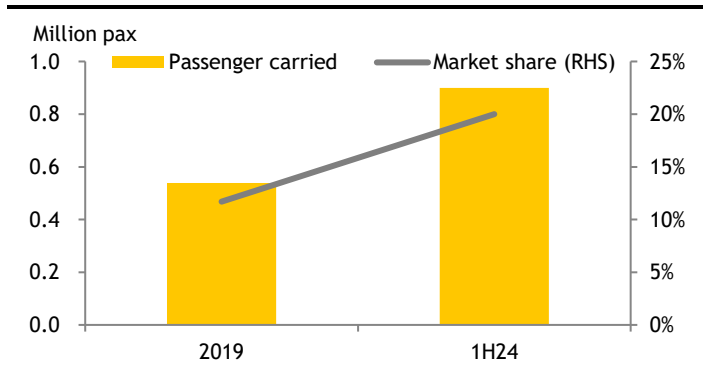


Source: CAAT, MST

We also expect upside from the expansion of new routes overseas, which should enhance passenger yield. In 2024, AAV continued to expand new routes from Don Mueang International airport (DMK) to Visakhapatnam (India) and Okinawa (Japan). The company also introduced two-stop voyages, departing from DMK with stopovers in Taiwan before reaching Japan (routes: Taipei-Okinawa and Kaohsiung-Tokyo). We expect AAV to

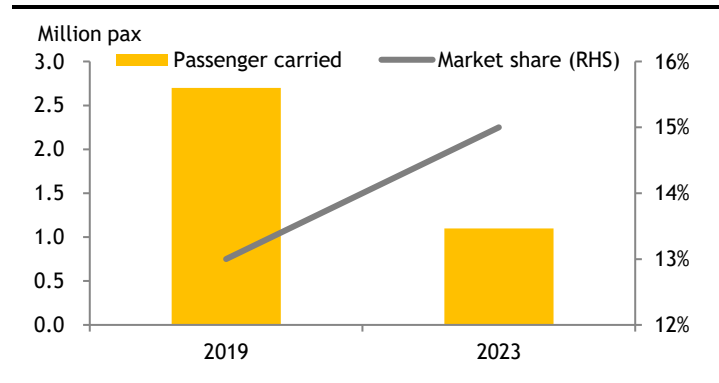
operate more than 500 weekly international flights by Dec 2024, up from 450 flights per week in 2023. We anticipate at least a 3-5% increase in capacity for China and South Asia in FY25-26, supported by the continued recovery in outbound Chinese tourists and increased flight slots for Thailand-India routes. For India, the company plans to increase weekly flights to 60 in FY25, starting from 4Q24, from 40 flights in 2019. For China, AAV has maintained a frequency of 90 flights per week since late 2023, still below the 140 flights per week operated in 2019.

Fig 18: Market share (India routes)



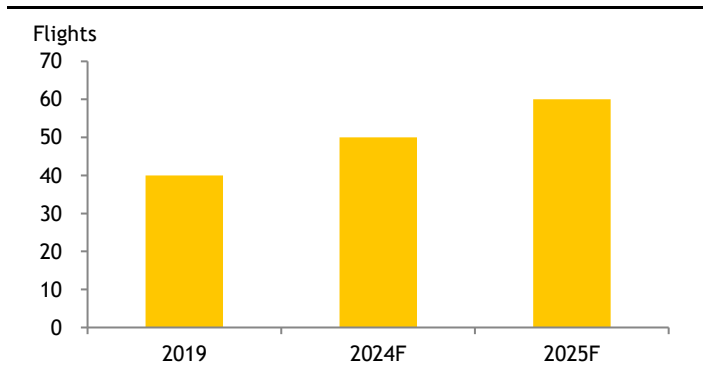
Source: CAAT, MST

Fig 19: Market share (China route)



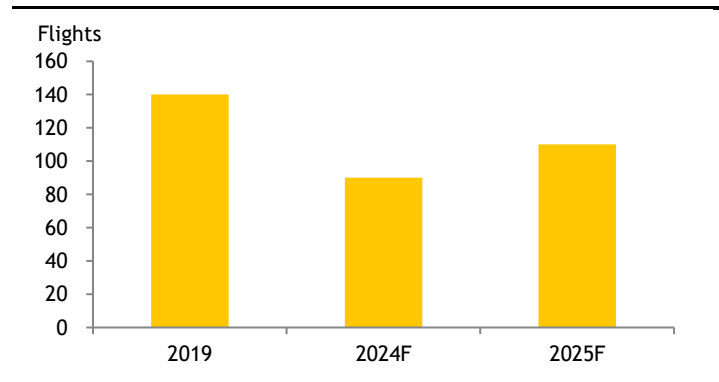
Source: CAAT, MST

Fig 20: Number of flights to India per week



Source: Company data, MST

Fig 21: Number of flights to China per week



Source: Company data, MST

AAV has been able to adjust its capacity to serve high-yield markets such as India, where the seasonality for outbound travel differs from that of China. As a result, we expect AAV’s fleet utilization rate and passenger yield to remain high, surpassing pre-Covid levels.

CAAT expects to secure more slots from India in 2025. Thailand will welcome an additional 7,000 seats per week (+20%) from India in Nov’24, with 50% of the new slots allocated to AAV, given its available capacity in terms of seats relative to other airlines. As of 3Q24, AAV holds around 20% market share of Thailand-India routes. Management expects to gain further market share, as it plans to add 3 more destinations in India in 2025, up from 8 in 3Q24. We believe India will be a key growth driver over the next decade, driven by the country’s growing middle class. According to ATTA, Thailand is one of the top destinations for first-time travelers from India planning to travel abroad.

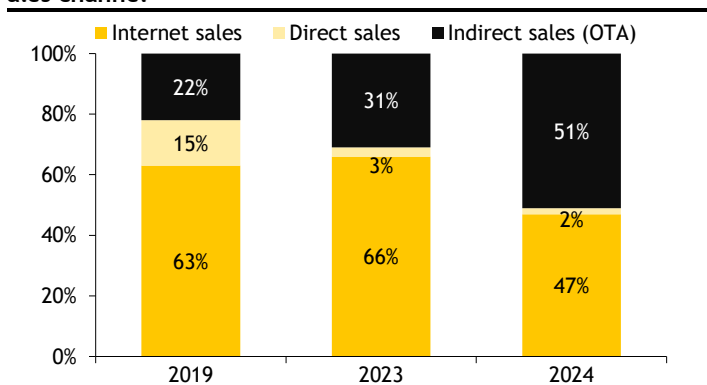
3.2 Lean cost strategy to improve bottom line

The company will continue to benefit from its cost-control strategy, particularly in staff costs and fuel consumption. We expect fuel consumption per kilometer flown to gradually decrease as the company adds new aircraft, including the A321LR and A321XLR models. These latest additions to the A320 family offer at least a 20% improvement in fuel efficiency per passenger, according to Airbus.

The decline in direct and internet sales via www.airasia.com and the 'AirAsia Super App' on smartphones should help limit commission fees paid to AirAsia Move, which are classified as SG&A expenses. However, the increasing use of OTA (online travel agency) platforms may limit ancillary revenue, as these platforms can only sell tickets and baggage. The company is negotiating with OTA platforms to boost additional ancillary revenue. As a result, the shift to OTA is likely to benefit AAV more in the future.

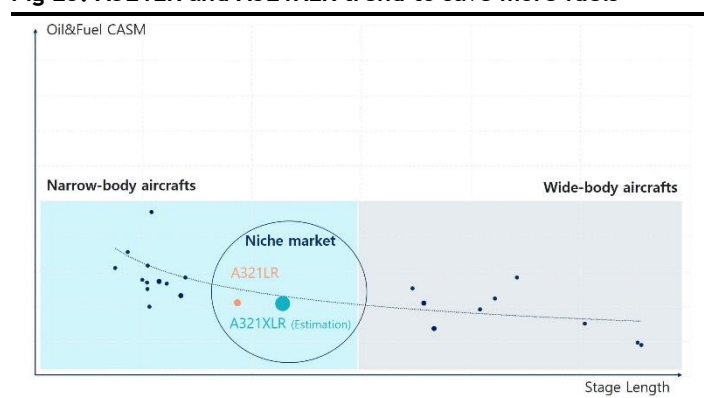
We expect additional costs-saving benefits from the relocation of the airline's operations hub from BKK Airport to DMK Airport, which took effect on 1 Oct'24. This move will provide greater convenience to passengers and improve airline operations by strengthening the connection between domestic and international routes. We also anticipate lower administrative costs, as managing the aviation hub under one roof should be more efficient.

Fig 22: Passenger revenue by sales channel



Source: Company data, MST

Fig 23: A321LR and A321XLR trend to save more fuels



Source: ALG Global *CASM: Cost per available seat mile

4. Financial analysis

4.1 Strong earnings growth with 12% CAGR in FY24-26E

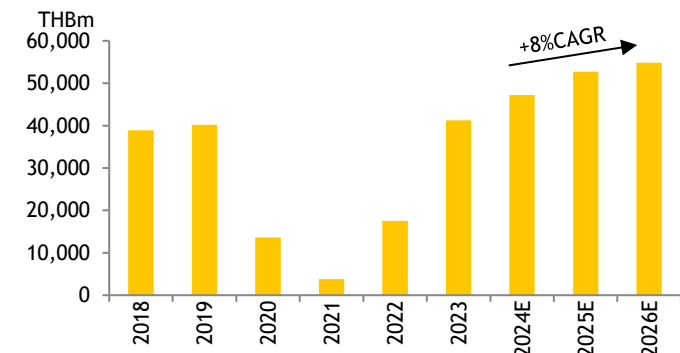
AAV posted earnings turnaround in FY23 following a resurgence of travel demand in Asia where travel restrictions eased after the rest of the world. The company's total revenue in FY23 reached a record high of THB43b (+135% YoY). With the resumption of international flights and an expanded route network, AAV's serviced passengers hit 18.9m (+90%YoY), supported by a solid load factor of 90%. ASK surged 123% YoY along with a seat capacity growth of 76%.

We forecast AAV's core profit to hit a new record high level in FY24E at THB2.9b, up from THB224m in FY23, supported by continued increase in ticket income to THB38b (+15%YoY) and ancillary income to THB8.8b (+14%YoY). The key driving factors are average fare and passengers carried that are expected to grow by 8% and 6%, respectively. Meanwhile, we expect total costs to increase at a lower rate than revenue at 6% YoY to

THB42b, on savings in maintenance and salary expenses. Therefore, operating margin (EBIT margin) will likely improve to 11%, from 4% in FY23.

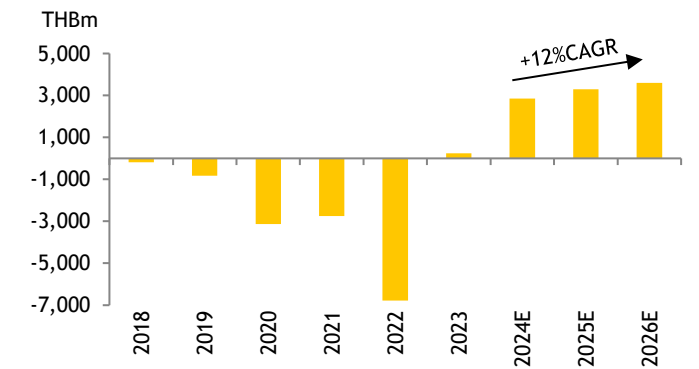
We forecast AAV's core profit to expand by 12% CAGR in FY24-26E, supported by total revenue growth at 8% CAGR, which will be driven by ticket income as the company is able to maintain market share and expand seat capacity ahead of domestic peers. We expect AAV's capacity to increase at a 6% CAGR in FY24-26E following an aircraft fleet expansion.

Fig 24: AAV's annual revenue



Source: Company, MST

Fig 25: AAV's annual core profit



Source: Company, MST

Fig 26: Revenue and profitability

	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue breakdown (THBm)					
Ticket income	14,234	33,565	38,449	43,169	44,890
Ancillary	3,319	7,676	8,777	9,587	9,984
Total revenue	17,553	41,241	47,226	52,756	54,874
Revenue growth (%)					
Ticket income	348%	136%	15%	12%	4%
Ancillary	410%	131%	14%	9%	4%
Total revenue	358%	135%	15%	12%	4%
Profitability (THBm)					
Cost of services	23,533	36,812	39,246	44,142	45,854
Gross profit	-5,981	4,429	7,980	8,614	9,019
Gross profit margin (%)	-34.1%	10.7%	16.9%	16.3%	16.4%
SG&A expenses	1,711	2,967	2,834	3,113	3,183
SG&A to sales ratio (%)	9.7%	7.2%	6.0%	5.9%	5.8%
EBITDA	-1,577	6,456	9,887	10,385	10,867
EBITDA margin (%)	-9.0%	15.7%	20.9%	19.7%	19.8%
Net profit	-8,030	466	2,855	3,301	3,607
Net Profit margin	-45.7%	1.1%	6.0%	6.3%	6.6%
Key Assumptions					
Carried passenger (Million)	9.95	18.88	20.00	21.69	22.37
Load factor (%)	84	90	91	89	89
Average ticket price (THB/pax)	1,434	1,780	1,922	1,991	2,007
growth (%)	32%	24%	8%	4%	1%
Jet fuel price (USD/bbl)	124	105	98	105	105

Source: Company, MST

4.2 3Q24 earnings review

3Q24 net profit was THB3.4b. However, excluding FX gain, the company would incur loss from operations of THB0.2m, compared with a THB373m core profit in 2Q24 and THB965m loss in 3Q23. The result came in below consensus estimate, due mainly to lower-than-expected gross profit margin and high-than-expected SG&A.

- Revenue was THB10.9b. (+13% YoY, -5% QoQ). The YoY growth was supported by average fare price that continued to increase to

THB1,847/passenger (+7% YoY, -4% QoQ) and the number of passengers carried increased to 4.89m, (+7%YoY -2%QoQ) thanks to recovery in demand for domestic routes. The QoQ drop in revenue was due to the low season for tourism.

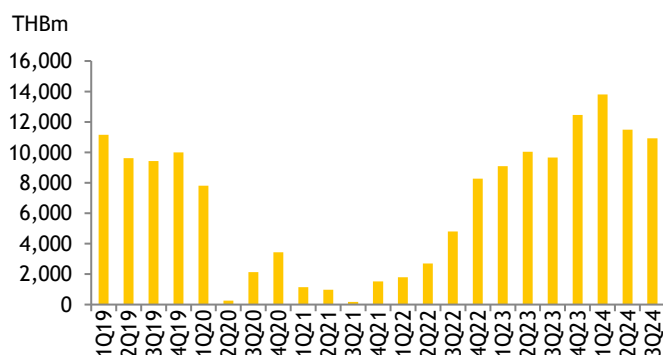
- Gross profit margin expanded YoY in 3Q24 to 11.9% thanks to solid increase in revenue and decline in fuel cost. However, margins contracted QoQ, pressured by a 5% decrease in revenue despite a 4% drop in cost of service.
- SG&A-to-sales ratio increased QoQ to 7.9%, mainly due to additional marketing cost ahead of the high season. However, the ratio fell YoY from 9.4% in 3Q23 due to economies of scale.
- We expect AAV's core profit to surge YoY and QoQ in 4Q24 following a high season for both domestic and international travel. Declining jet fuel price should also be the key earnings growth driver in 4Q24.

Fig 27: Quarterly earnings review

Yr-end Dec (THBm)	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	%QoQ	%YoY
Total revenue	4,811	8,264	9,086	10,036	9,662	12,457	13,794	11,485	10,931	-5%	13%
Cost of goods sold	(6,618)	(7,592)	(7,901)	(9,013)	(9,635)	(10,262)	(11,242)	(9,985)	(9,631)	-4%	0%
Gross profit	(1,807)	672	1,184	1,024	27	2,195	2,551	1,500	1,300	-13%	4765%
SG&A	(412)	(555)	(680)	(678)	(905)	(704)	(608)	(673)	(859)	28%	-5%
Operating profit	(2,220)	117	505	346	(879)	1,491	1,943	828	441	-47%	-150%
EBITDA	(590)	1,789	2,548	1,969	493	2,444	3,141	1,993	1,664	-17%	237%
Other income	89	277	736	372	244	(353)	234	198	172	-13%	-29%
EBIT	(2,131)	394	1,240	718	(635)	1,138	2,177	1,026	613	-40%	-197%
Interest expense	(625)	(484)	(494)	(549)	(596)	(652)	(630)	(631)	(652)	3%	9%
EBT	(2,756)	(90)	747	169	(1,231)	486	1,547	395	(40)	nm	-97%
Income tax	1,001	52	(28)	11	266	(176)	(282)	(21)	39	-nm	-85%
Equity income	0	0	0	0	0	0	0	0	0	nm	nm
Minority interests	0	0	0	0	0	0	0	0	0	nm	nm
Core profit	(1,755)	(38)	719	179	(965)	311	1,265	373	(0)	-100%	-100%
Extra items	(2,295)	3,152	(359)	(1,192)	(730)	2,503	(1,674)	(289)	3,447	nm	nm
Net income	(4,050)	3,114	359	(1,013)	(1,695)	2,814	(409)	84	3,446	4000%	nm
EPS (THB)	-0.33	0.26	0.03	-0.08	-0.13	0.22	-0.03	0.01	0.27	4000%	nm
Ratio analysis											
Gross margin (%)	-37.6	8.1	13.0	10.2	0.3	17.6	18.5	13.1	11.9		
SGA/Total revenue (%)	8.6	6.7	7.5	6.8	9.4	5.6	4.4	5.9	7.9		
Operating profit margin (%)	-46.1	1.4	5.6	3.4	-9.1	12.0	14.1	7.2	4.0		
Net profit margin (%)	-84.2	37.7	4.0	-10.1	-17.5	22.6	-3.0	0.7	31.5		

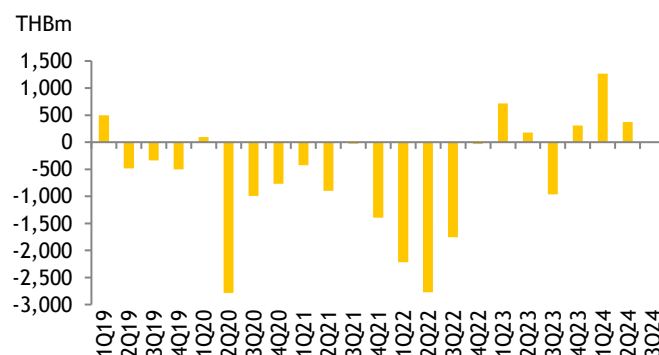
Source: Company, MST

Fig 28: AAV's quarterly core revenue



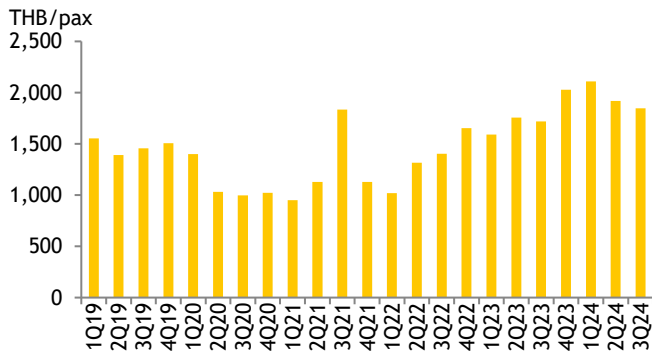
Source: Company, MST

Fig 29: AAV's quarterly core profit



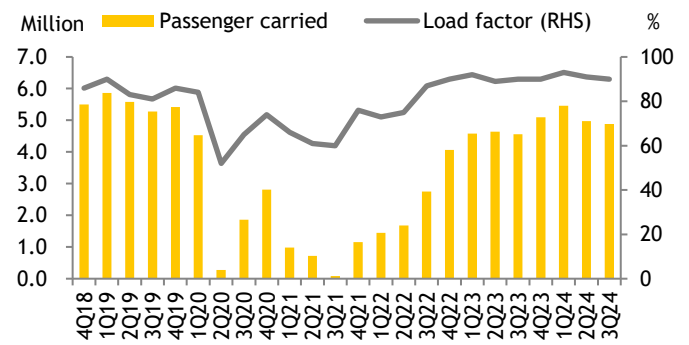
Source: Company, MST

Fig 30: AAV's average fare (quarterly)



Source: Company, MST

Fig 31: AAV's carried passenger and load factor (quarterly)

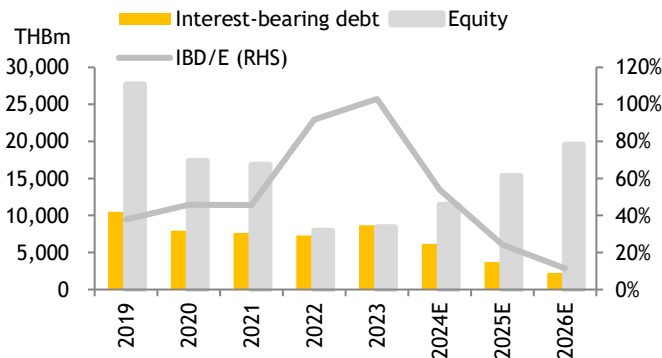


Source: Company, MST

4.3 Strong improvement in balance sheet

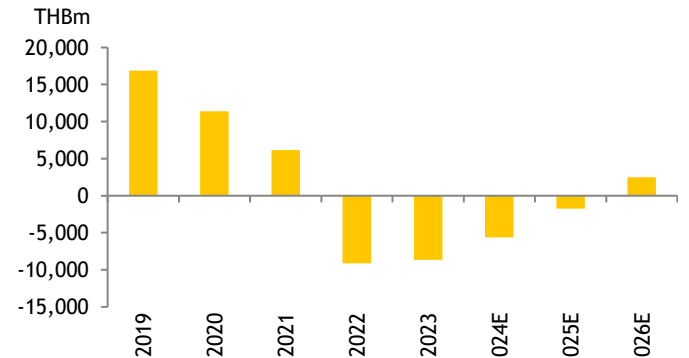
We expect AAV's gearing ratio (D/E) to fall from 7.1x in FY23 to below 3.0x in FY26E, which is the level last observed in FY20. Improving retained earnings is the key supportive factor. Excluding lease liabilities, the gearing ratio (interest-bearing debt/equity) will be much lower at 0.1x. We expect a healthy balance sheet for AAV in the long term as we see no signs of intense competition like before Covid. We believe airlines will have more discipline when planning capacity expansion and implementing price cuts.

Fig 32: Interest-bearing-debt to equity ratio



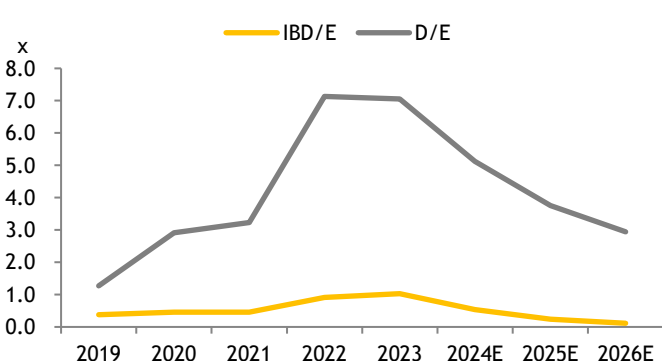
Source: Company data, MST

Fig 33: AAV's retain earnings



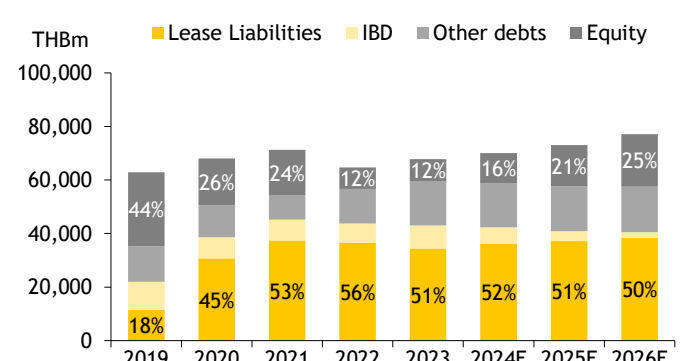
Source: Company data, MST

Fig 34: IBD/equity ratio and total debt/equity ratio



Source: Company data, MST

Fig 35: AAV's total asset breakdown by items



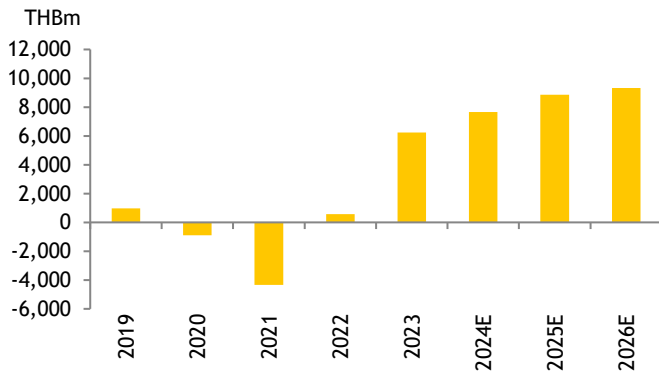
Source: Company data, MST

4.4 Positive cash flow ready for capex and debt repayment

We expect solid improvement in the company's free cash flow from FY24 onwards despite an upcoming capex cycle. AAV expects to lease more aircraft to serve upcoming demand and maintain its leadership position in

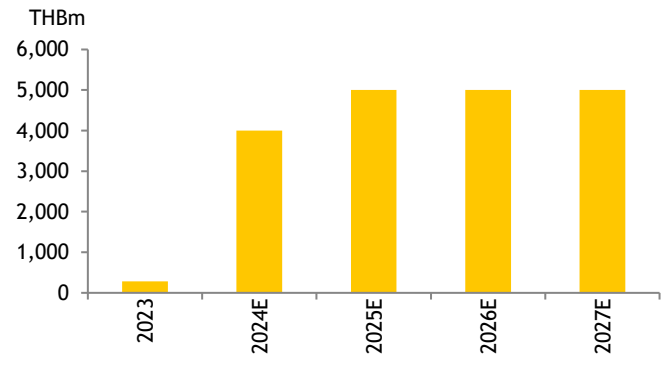
the domestic market. AAV received four planes in 2024, while we expect at least 5-6 units pa in FY25-FY27. We expect the company to maintain positive free cash flow throughout the new capex cycle thanks to strong operating profit. In the next 3 years, we expect no replacement cycle for operating aircraft as its average age is only 9 years, which is the lowest relative to airlines in Thailand and far from service life of around 20 years.

Fig 36: AAV’s cash flow from operations






Source: Company data, MST

Fig 37: AAV’s capex projection



Source: Company data, MST

Fig 38: AAV’s fleet distribution (as of 2023)

Model	Units	Average Age (Years)	Capacity (Seats)
A320 	43	10.7	180
A320neo 	11	5.8	186
A321neo 	2	4	236

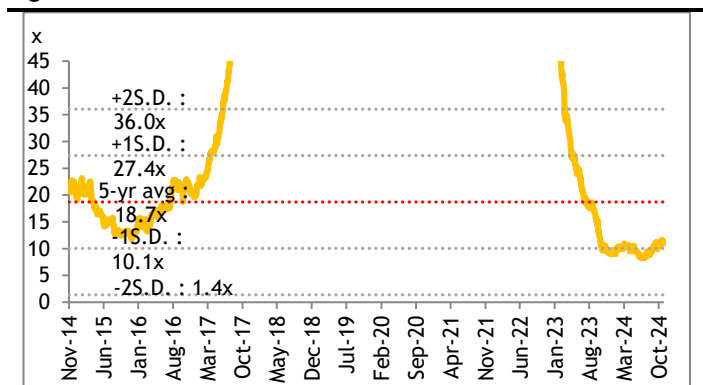
Source: AAV

5. Valuation

5.1 Low valuation reflects caution on earnings turnaround

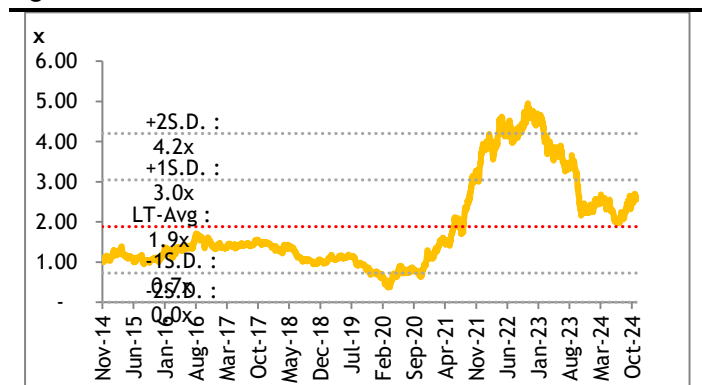
We value AAV by applying a 13x P/E to FY25E earnings and derive a target price of THB3.40. The 13x PE multiple is the average of the airline sector in Asia Pacific. AAV is trading at 11x forward FY25E P/E, which is around -1.0x from its 10-year average. We believe it partly reflects investor caution toward its recovering airline business in FY24E before entering a stable growth phase in FY25E. However, AAV deserves to trade at par to the average of its Asia Pacific peers, in our view. AAV has the highest market share in the Thai domestic market where it is likely to continue to enjoy high fares given its capacity recovery is faster than domestic peers.

Fig 39: AAV's forward PE



Source: Company data, MST

Fig 40: AAV's Forward PBV



Source: Company data, MST

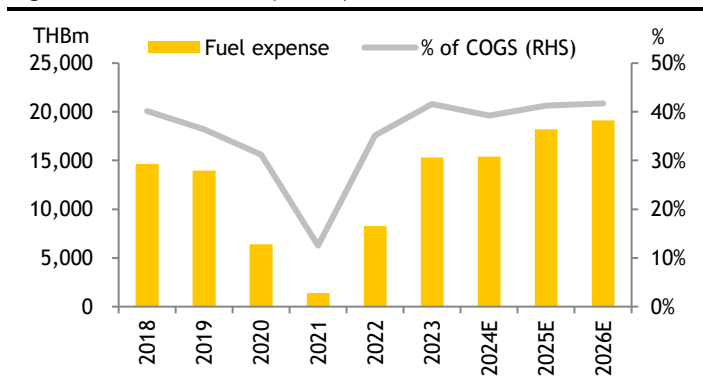
6. Risks

6.1 Volatility of earnings from oil price fluctuations

AAV's core earnings will be largely impacted by cost of fuel. Jet fuel cost accounted for 35% and 42% of cost of services in FY22 and FY23, respectively. Generally, during periods of rising fuel prices, AAV would enter into a hedging contract to manage risks.

Due to historical loss recognition from hedging and declining trend of fuel prices in the medium term, the company did not enter into hedging contracts in FY23 and FY24. We conducted a sensitivity analysis of oil jet fuel prices to earnings forecast. Every USD1 change in jet fuel prices from our base case of USD105/bbl, impacts our FY25 earnings forecast by 3.8%.

Fig 41: AAV's fuel cost (THBm)



Source: Company data, MST

Fig 42: Sensitivity of earnings from changing in oil price

Jet fuel price in USD/bbl	Fuel cost (THBm)	Core profit forecast in FY25E (THB m)	(Downside)/upside to FY25E core profit forecast
101	17,578	3,807	15.3%
102	17,736	3,680	11.5%
103	17,894	3,554	7.7%
104	18,052	3,428	3.8%
105 (base case)	18,209	3,301	0.0%
106	18,367	3,175	-3.8%
107	18,525	3,049	-7.7%
108	18,683	2,922	-11.5%
109	18,841	2,796	-15.3%

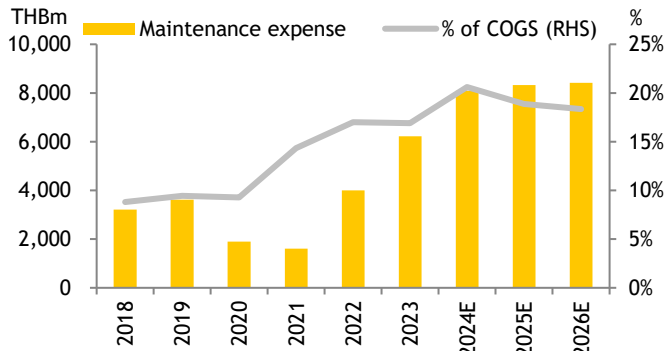
Source: Company data, MST

6.2 Higher-than-expected maintenance expense

The average age of AAV's aircraft was 9.5 years in FY23, which is relatively young compared with airlines in Thailand. In general, the cost of maintaining aging aircraft will exceed the cost of maintaining newer aircraft. However, AAV's maintenance expense surged in FY23-24E due to spare part shortage and costs related to flight resumption. We expect the company's maintenance expenses to peak in FY25E as the majority of the fleet returned to operation in FY24. We expect maintenance cost to contribute 21% of total cost of services in FY24E before falling to 18% in FY26E. However, any significant increase in maintenance expenses arises from a prolonged period of supply chain disruption, which will have an

adverse effect on earnings. We conducted a sensitivity analysis on maintenance cost to earnings impact in FY25E. For every 1% change from our base case in FY25E at THB8.3b, it will impact our FY25 core profit forecast by 2%.

Fig 43: AAV's maintenance cost (THBm)



Source: Company data, MST

Fig 44: Sensitivity of earnings from change in maintenance costs

Maintenance cost in THBm	% Change from base case	Core profit forecast in FY25E (THBm)	(Downside)/upside to FY25E core profit forecast
8,665	+4%	3,034	-8.1%
8,581	+3%	3,102	-6.0%
8,498	+2%	3,168	-4.0%
8,415	+1%	3,234	-2.0%
8,332	0%	3,301	0.0%
8,248	-1%	3,368	2.0%
8,165	-2%	3,434	4.0%
8,082	-3%	3,501	6.0%
7,998	-4%	3,568	8.1%

Source: Company data, MST

6.3 Future price war could reduce average fare

Faster-than-expected recovery in seat supply, particularly for the domestic market, may lead to intense competition in the airline industry. Emergence of other forms of transportation such as fast-rails could also affect AAV's future operations.

Low-cost airlines compete primarily on price, flight frequency and reliability of service, etc. Air fare is the factor that explains the demand-supply environment of the industry. We conducted sensitivity analysis between AAV's average air fare and its earnings. For every 1ppt change in the average fare (domestic routes) growth from our assumption of +1% in FY25E, (THB1,440 in FY24E) it will have a 2.4% impact to our FY25 core profit forecast.

Fig 45: Sensitivity of earnings from change in average ticket price

Average ticket price (THB)	% Change from 2024E base	Core profit forecast in FY25E (THBm)	(Downside)/upside to FY25E core profit forecast
1,397	-3.0%	2,980	-9.7%
1,412	-2.0%	3,060	-7.3%
1,426	-1.0%	3,141	-4.9%
1,440	0.0%	3,221	-2.4%
1,455 (Base case)	+1.0%	3,301	0.0%
1,469	+2.0%	3,382	2.4%
1,484	+3.0%	3,462	4.9%
1,498	+4.0%	3,543	7.3%
1,512	+5.0%	3,624	9.8%

Source: Company data, MST

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	nm	137.7	12.7	11.0	10.0
Core P/E (x)	nm	54.9	12.7	11.0	10.0
P/BV (x)	4.7	3.0	3.2	2.5	2.0
P/NTA (x)	4.7	3.0	3.2	2.5	2.0
Net dividend yield (%)	0.0	0.0	0.0	0.0	5.0
FCF yield (%)	11.4	23.3	12.4	11.8	12.9
EV/EBITDAR (x)	nm	7.7	5.8	5.2	4.7
EV/EBIT (x)	nm	23.4	10.4	9.1	8.1
INCOME STATEMENT (THB m)					
Revenue	17,553.3	41,241.5	47,226.1	52,755.6	54,873.6
Gross profit	(5,980.2)	4,429.8	7,980.4	8,614.1	9,019.2
EBITDAR	(850.6)	7,409.7	10,787.0	11,385.0	11,867.3
Depreciation	(3,829.0)	(3,716.7)	(3,715.5)	(3,861.4)	(4,010.6)
Amortisation	(2,274.2)	(1,264.2)	(1,024.7)	(1,022.2)	(1,020.2)
EBIT	(6,953.8)	2,428.8	6,046.8	6,501.5	6,836.6
Net interest income / (exp)	(2,219.5)	(2,291.2)	(2,508.3)	(2,404.9)	(2,357.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	29.2	32.9	30.0	30.0	30.0
Pretax profit	(9,144.1)	170.5	3,568.5	4,126.6	4,508.7
Income tax	2,179.2	73.6	(713.7)	(825.3)	(901.7)
Minorities	184.4	0.0	0.0	0.0	0.0
Discontinued operations	(1,249.5)	221.7	0.0	0.0	0.0
Reported net profit	(6,780.5)	244.1	2,854.8	3,301.3	3,607.0
Non-cash & non-recurring items	0.0	0.0	0.0	0.0	0.0
Core net profit	(8,030.0)	465.8	2,854.8	3,301.3	3,607.0
BALANCE SHEET (THB m)					
Cash & Short Term Investments	797.8	1,284.5	2,006.0	1,904.1	3,236.2
Accounts receivable	853.7	1,199.1	1,198.5	1,342.2	1,395.1
Inventory	401.3	508.5	545.5	568.2	567.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	4,185.0	4,083.4	6,606.2	10,033.9	13,363.1
Intangible assets	14,859.5	14,857.8	14,855.7	14,853.7	14,851.7
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	43,588.3	45,860.6	44,713.3	43,518.9	42,276.9
Total assets	64,685.5	67,793.9	69,925.2	72,221.0	75,690.8
ST interest bearing debt	3,320.6	3,735.5	3,712.9	2,727.7	1,939.6
Accounts payable	1,463.5	1,893.4	1,791.2	2,019.2	2,096.5
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	3,978.1	4,925.8	2,462.9	985.2	295.5
Other liabilities	47,969.0	48,827.0	50,691.0	51,920.0	53,184.0
Total Liabilities	56,731.1	59,381.5	58,658.1	57,652.6	57,515.4
Shareholders Equity	7,954.4	8,412.3	11,267.1	14,568.4	18,175.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	7,954.4	8,412.3	11,267.1	14,568.4	18,175.4
Total liabilities and equity	64,685.5	67,793.9	69,925.2	72,221.0	75,690.8
CASH FLOW (THB m)					
Pretax profit	(9,144.1)	170.5	3,568.5	4,126.6	4,508.7
Depreciation & amortisation	6,103.1	4,980.9	4,740.2	4,883.5	5,030.8
Adj net interest (income)/exp	2,190.3	2,258.4	2,478.3	2,374.9	2,327.9
Change in working capital	120.3	(10.5)	(138.6)	61.6	24.8
Cash taxes paid	0.0	0.0	(713.7)	(825.3)	(901.7)
Other operating cash flow	(1,065.3)	(1,951.5)	(2,478.3)	(2,374.9)	(2,327.9)
Cash flow from operations	564.0	6,239.1	7,478.7	8,269.1	8,685.4
Capex	3,695.8	(279.8)	(3,000.0)	(4,000.0)	(4,000.0)
Free cash flow	4,259.8	5,959.3	4,478.7	4,269.1	4,685.4
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	228.6	68.6	0.0	0.0	0.0
Change in Debt	(370.9)	1,386.7	(2,485.5)	(2,462.9)	(1,477.7)
Other invest/financing cash flow	(8,673.8)	(6,922.7)	(1,271.8)	(1,908.1)	(1,875.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(4,556.4)	491.9	721.5	(101.9)	1,332.1

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	358.5	135.0	14.5	11.7	4.0
EBITDAR growth	nm	nm	45.6	5.5	4.2
EBIT growth	nm	nm	149.0	7.5	5.2
Pretax growth	nm	nm	1,993.2	15.6	9.3
Reported net profit growth	nm	nm	1,069.5	15.6	9.3
Core net profit growth	nm	nm	512.9	15.6	9.3
Profitability ratios (%)					
EBITDAR margin	nm	18.0	22.8	21.6	21.6
EBIT margin	nm	5.9	12.8	12.3	12.5
Pretax profit margin	nm	0.4	7.6	7.8	8.2
Payout ratio	0.0	0.0	0.0	0.0	50.0
DuPont analysis					
Net profit margin (%)	nm	0.6	6.0	6.3	6.6
Revenue/Assets (x)	0.3	0.6	0.7	0.7	0.7
Assets/Equity (x)	8.1	8.1	6.2	5.0	4.2
ROAE (%)	(48.2)	3.0	29.0	25.6	22.0
ROAA (%)	(11.8)	0.7	4.1	4.6	4.9
Liquidity & Efficiency					
Dividend cover (x)	nm	nm	nm	nm	2.0
Current ratio (x)	0.3	0.5	0.6	0.6	0.7
Leverage & Expense Analysis					
Asset/Liability (x)	1.1	1.1	1.2	1.3	1.3
Net gearing (%) (incl perps)	81.7	87.7	37.0	12.4	net cash
Net gearing (%) (excl. perps)	81.7	87.7	37.0	12.4	net cash
Net interest cover (x)	na	1.1	2.4	2.7	2.9
Debt/EBITDAR (x)	nm	1.2	0.6	0.3	0.2
Capex/revenue (%)	nm	0.7	6.4	7.6	7.3
Net debt/ (net cash)	6,501.0	7,376.8	4,169.8	1,808.8	(1,001.0)

Source: Company; Maybank IBG Research

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