Regional Industry Focus

ASEAN Airlines

DBS Group Research . Equity

11 August 2015

The stars are aligned

- We continue to be positive on the growth of the ASEAN aviation market, particularly on the short-haul segment, driven by the region's growing affluence and increasing propensity to fly.
- The ASEAN Open Skies agreement is close to full ratification and even some delay should not impede the boost that a liberalised environment would provide. Key roadblocks revolve around infrastructure constraints and ownership restrictions.
- Earnings for ASEAN carriers are projected to recover over these two years on lower fuel costs and steady carriage growth. While the strength of the US$ has and will continue to hit costs, the significantly lower fuel bill more than offsets this impact.
- Top picks: Asia Aviation, Bangkok Airways, Garuda Indonesia.

Positive long-term outlook for ASEAN. Rising propensity to travel as well as the increasing liberalisation of air traffic will drive the demand for regional air travel. We forecast short-haul RPK to grow at a 9% CAGR through 2020, outpacing mid/long-haul's expected CAGR of 4%. Precedents in US and EU suggest LCCs will be the biggest beneficiaries of a liberalised aviation market.

Better earnings prospects. We expect all ASEAN airlines under our coverage to post significant operating profit growth in 2015, driven by cheaper fuel prices. GIAA, Tigerair, THAI and AAX are expected to turn around in 2015-16, while AAV and BA will see significant topline growth driven by the country's rising inbound tourism.

ASEAN airlines are cheap relative to historical valuation. ASEAN airlines are generally trading below mean historical P/BV. We expect valuation to re-rate on the back of significant earnings improvements, which are driven by better operating environment and cheaper fuel prices.

TOP PICKS: We like **AAV (BUY, Bt6.30)** and **BA (BUY, Bt27.50)** as proxies to the Thai tourism boom. AAV, with its China and ASEAN-focused international network, will benefit from surging tourists from these regions. Meanwhile, BA is dominant at the Samui Airport, which is a key tourist destination in Thailand. We like **GIAA (BUY, Rp630)** for its cheap valuation and exposure to the secular growth in Indonesian air traffic.

STI :	3,196.66
KLCI :	1,682.65
JCI :	4,770.30
SET :	1,428.79

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STOCKS

	Price RM	Mkt Cap US$m	Target Price RM	Performance (%) 3 mth	12 mth	Rating
AirAsia	1.34	950	1.55	(39.9)	(44.9)	HOLD
AirAsia X Bhd	0.21	217	0.22	(35.5)	(69.8)	HOLD
Asia Aviation	5.05	697	6.30	6.5	16.9	BUY
Bangkok Airways PCL	21.50	1,285	27.50	11.4	N.A	BUY
Garuda Indonesia	423	809	630	(24.5)	0.0	BUY
Singapore Airlines	10.41	8,795	12.70	N.A	N.A	BUY
Thai Airways	12.30	764	12.35	0.0	(19.1)	HOLD
Tiger Airways Holdings	0.30	532	0.42	N.A	N.A	BUY

Source: DBS Bank, DBS Vickers, AllianceDBS, Bloomberg Finance L.P.

AirAsia : Low cost carrier based in Malaysia, with regional associates

AirAsia X Bhd : Long-haul low cost carrier based in Malaysia.

Asia Aviation : Low cost carrier based in Thailand.

Bangkok Airways PCL : Bangkok Airways is a full service regional carrier with hubs in Bangkok and Samui, and is also a major and controlling shareholder of Samui Airport Property Fund.

Garuda Indonesia : Garuda Indonesia (GIAA) is the national flag carrier of Indonesia focusing in passanger and cargo service.

Singapore Airlines : Singapore Airlines owns and operates SIA, SIA Cargo and Silk Air, and has an associate stake in Tigerair. They also own SIA Engineering..

Thai Airways : National Carrier of Kingdom of Thailand.

Tiger Airways Holdings : Low cost airline in Singapore.

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Investment Summary

Positive long-term outlook for ASEAN aviation market. The ASEAN region has entered into a period of strong growth trajectory, with GDP expected to grow at a CAGR of c.8.3% to reach US$4tn by 2020. Rising affluence and the doubling of the middle class population by 2020 are expected to drive the region's propensity to travel. As ASEAN Open Sky Policies come into fruition, the gradual removal of aviation barriers will fan intra-regional competition among carriers – driving airfares downward and opening up more air travel destinations to cater to the region's growing demand for air travel. Together, the favourable macro outlook and greater availability of affordable air travel options provide both the demand and supply conditions necessary for growth across the ASEAN aviation market in the long term.

ASEAN Open skies (AOS). AOS 2015 was established as part of ASEAN's efforts in building a single economic community. As of June 2015, only seven out of 10 countries have fully ratified the set of Open Skies agreements (MAFLAFS, MAAS and MAFLPAS). Despite the delay, the respective governments remain optimistic of their ability to achieve their slated goal. We have the same view but the challenges ahead (due to limitations to current airport capacity and other aviation infrastructure) could limit the net benefit that was expected to accrue to Member Nations upon full ratification of 5th freedom to ASEAN airspace.

Challenges and risks. Many obstacles lie ahead of ASEAN's ability to be truly open skies and it is imperative that member nations commit to, and step up on infrastructural and capacity expansion plans while gradually relax foreign ownership restrictions to encourage cross border transactions. Even with the establishment of an AOS network, there is a risk that member nations may hold on to protectionist measures (i.e. unfair subsidies, etc), to protect their home carriers. This could undermine the spirit of ASEAN operating as a single economic body.

Earnings outlook for ASEAN carriers. ASEAN carriers are in the midst of a recovery and are on track to deliver significant earnings improvements, driven by both top-line growth potential (amid favourable economic outlook for key markets such as Indonesia and Thailand and vibrant tourism demand) and lower jet fuel prices (which is a key operating costs for airlines). In response, we expect all eight ASEAN carriers under our coverage to register significant operating earnings growth in 2015-16F. Three out of the four loss-making carriers (i.e. GIAA, Tigerair and THAI) are expected to turnaround in 2015F while AAX should be back in the black by 2016F.

Lower jet fuel costs a tailwind. Our forecasts assume spot jet fuel price to average US$85/90 per barrel in 2015/16, which is conservative as jet fuel is currently trading at below US$60/bbl. This leaves some rooms for earnings upgrade in the future. With margins being razor thin, airlines' earnings are very sensitive to changes in jet fuel cost, and we estimate every decline of US$1 in average jet fuel costs per barrel would lead operating earnings higher by 1.9-7.5%, for the ASEAN airlines under our coverage.

Stronger US$ could be a challenge. The US$ has been strengthening against regional currencies since August 2014 and is projected to continue doing so. Non-US carriers generally generate a deficit in US$ due to the high percentage of costs that are incurred or denominated in US$. All else being equal, for every 1% appreciation of the US$, we estimate that operating earnings of the airlines above would be impacted by 2.6-15.3%.

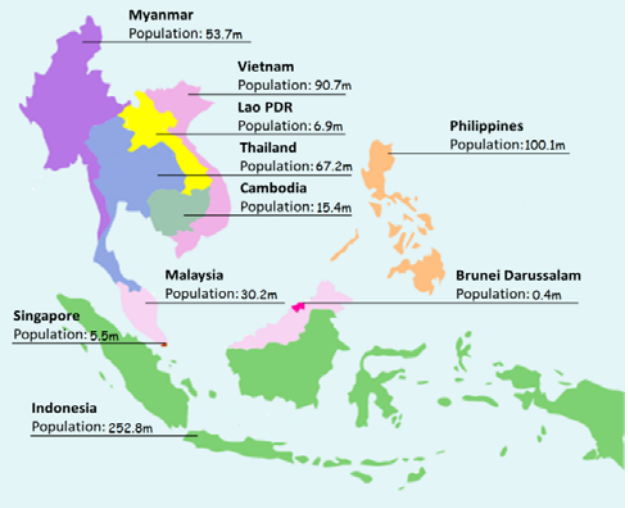
ASEAN airlines are mostly trading below mean historical P/BV; vs the North Asian airlines that are trading at +1SD to historical P/BV. We believe North Asian airlines offer limited upside potential, given the rich valuation and investors should consider switching into the cheaper ASEAN peers. In particular, we like the Thailand-listed airlines (i.e. AAV, BA), for their exposure to the country's vibrant inbound tourism market. We advocate investors to avoid names like AIRA and THAI given the significant company specific risks (i.e. potential impairments, restructuring costs, etc).

Our top picks among the ASEAN airlines are AAV (BUY, Bt630), BA (BUY, TP: Bt27.50) and GIAA (BUY, TP: IDR630). We like AAV for its international network which is geared to serve destinations in China and ASEAN. This makes it the prime candidate to benefit from the ASEAN and Chinese-led tourism boom in Thailand. Meanwhile, BA is also set to benefit from the tourism boom, given its dominance over slots at Samui Airport – a popular tourist destination in Thailand. We like GIAA for its cheap valuation to ride on the secular growth in Indonesia air travel demand, which is supported by country's growing affluence and unique archipelago geography.

ASEAN Open Skies: On Track but with Challenges

ASEAN. Formed in 1967 by Indonesia, Malaysia, Philippines, Singapore and Thailand, the Association of Southeast Asian Nations (ASEAN) now includes Brunei, Myanmar, Cambodia, Laos and Vietnam. This geo-political and economic organisation has a combined population of c.622m people.

ASEAN Map with Population Breakdown



Source: World Bank

Substantial economic bloc on the global stage. ASEAN would rank as the world's 7th largest economy if it were a single bloc. With a total nominal GDP of US$2.5tn in 2014, this put the region ahead of the BRIC's Brazil, India and Russia individually.

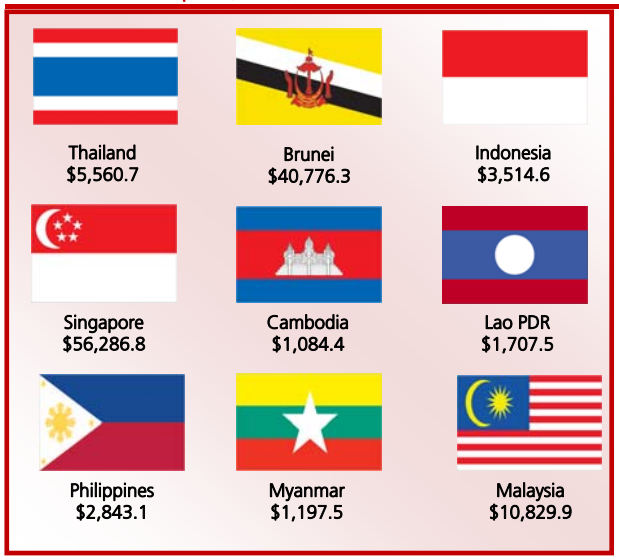
ASEAN GDP vs Other Economies

Rank	Country	2014 GDP (US$, tn)	10-year CAGR
1	United States	17.42	3.6%
2	China	10.36	18.2%
3	Japan	4.60	-0.1%
4	Germany	3.85	3.2%
5	United Kingdom	2.94	2.5%
6	France	2.83	2.9%
7	**ASEAN**	**2.48**	**11.6%**
8	Brazil	2.35	13.4%
9	Italy	2.14	1.8%
10	India	2.07	11.1%
11	Russia	1.86	12.2%

Source: World Bank

One of the fastest-growing economic regions in the world, ASEAN posted GDP growth of 11.6% CAGR in the last decade. Their projected GDP is expected to reach US$4tn by 2020.

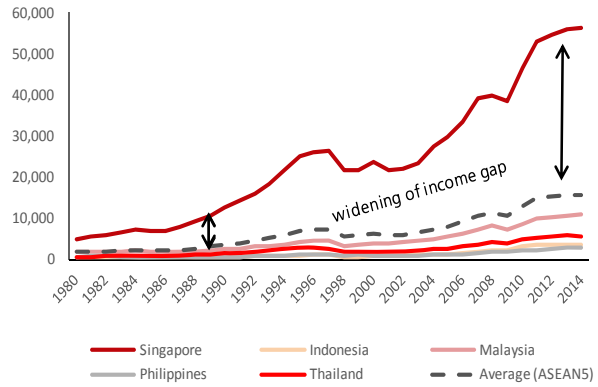
ASEAN GDP / Capita (2014)



Source: Central Intelligence Agency (CIA), World Bank

Moving towards an ASEAN Economic Community. The income gap among ASEAN5 members has been widening over the last three decades. Given the ASEAN members' commitment in moving towards their goal of an AEC, we believe that developmental gaps (in terms of income, human development and technology) among ASEAN5 members will start to narrow over the next 10 years.

ASEAN5 GDP per Capita Growth (1980-2014, US%'000)



Source: World Bank, DBS Bank

Growing affluence in ASEAN. The most exciting development within ASEAN is the growing middle class, which is expected to double to 500m by 2020. The World Bank currently classifies "Upper Middle Income" nations as those that have a Gross National Income (GNI)/Capita of between US$4,126 and US$12,735. Based on 2014 statistics, Indonesia and the Philippines are fast approaching these income levels, indicating that they will soon become the consumption growth engines for the region.

ASEAN5 GNI / Capita (US$)

Country	2004	2014	10-yr CAGR	Income Level
Indonesia	$1,090	$3,650	12.8%	Lower Middle Income
Malaysia	$4,700	$10,660	8.5%	Upper Middle Income
Philippines	$1,400	$3,440	9.4%	Lower Middle Income
Singapore	$25,650	$55,150	8.0%	High Income
Thailand	$2,370	$5,410	8.6%	Upper Middle Income

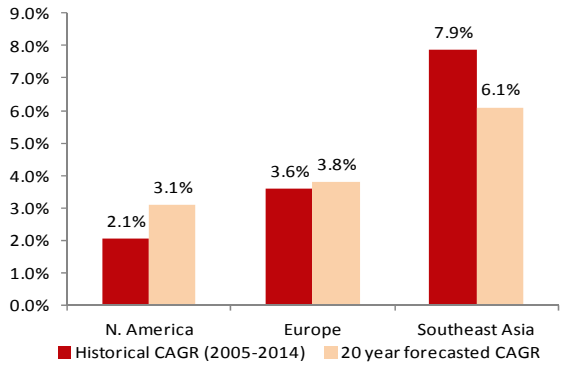
Source: World Bank

This shift towards greater consumption driven by an increasingly affluent population seeking to upgrade their living standards, will be bullish for services industries such as finance, aviation, hospitality and tourism sectors.

Growth and outlook for ASEAN Aviation

ASEAN leads other regions in RPK growth. ASEAN as single bloc has posted the highest RPK growth globally, in the past 10 years. Over the next two decades, it is slated to outpace its developed peers with a CAGR of 6.1% vs 3.1% for North America and 3.8% for Europe.

SEA's RPK CAGR > North America and Europe



Source: Boeing Current Market Outlook 2015-2034

ASEAN's aviation market currently revolves around the main capital cities and airport hubs of the region. Singapore Changi Airport, Kuala Lumpur International Airport (Malaysia), Bangkok Suvarnabhumi International Airport (Thailand), Jakarta Soekarno-Hatta International Airport (Indonesia) and Manila Ninoy-Aquino International Airport (Philippines) rank among the top 5 airports in ASEAN. Besides being gateways to the capital cities, they often provide the only or most convenient connection to other cities within their respective countries.

Plan to develop other airports. Besides the capital city airports, there are also plans to develop other existing secondary airports, as well as airports in developing cities. Some of the existing secondary airports already boast substantial passenger traffic (refer to the table in the next page).

Market with significant untapped potential. The economic performance of towns and cities are closely linked to its degree of connectivity, either via road or air travel. Furthermore, unlike US or EU where road and rail infrastructure are essential, aviation is especially important to the ASEAN region due to its unique geography with over 20,000 islands. With ASEAN governments ramping up rural development efforts to eradicate poverty and to bridge developmental gaps across the region, we expect to see greater investments in aviation infrastructure, especially in "isolated" cities that lack reasonable access to airports.

Top 20 Airports in ASEAN Ranked by Annual Passenger Traffic

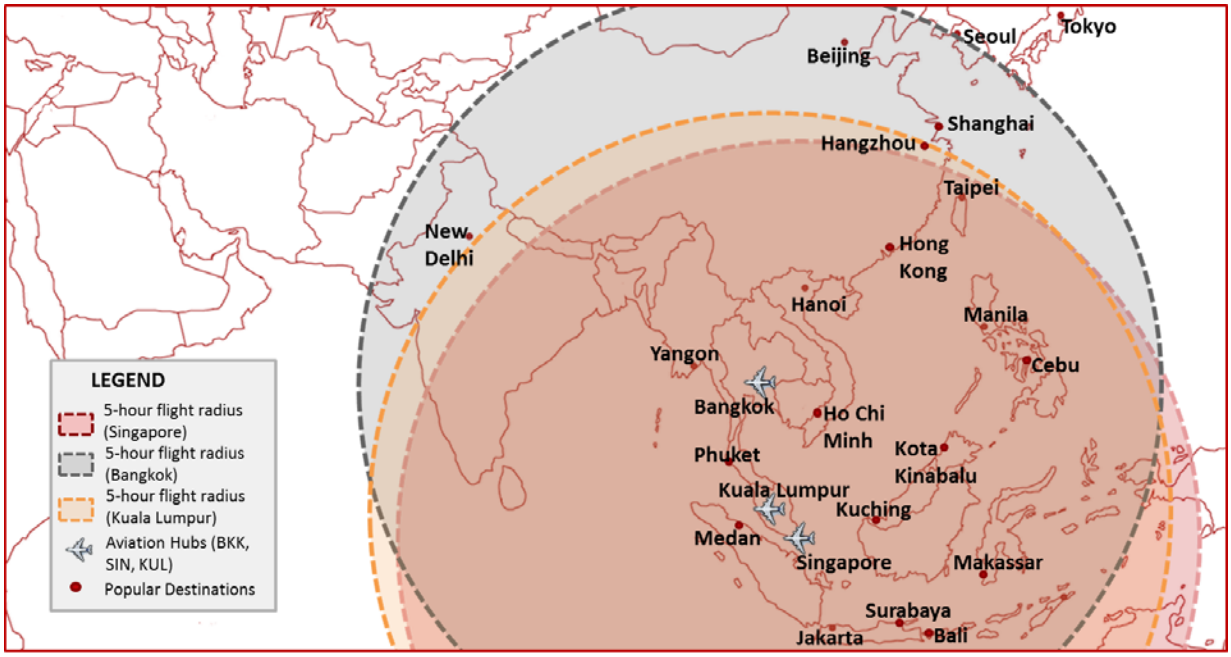
Rank	Airport	Location	Country	Passenger numbers
1	Soekarno-Hatta International Airport	Jakarta	Indonesia	57,005,406
2	Changi Airport	Singapore	Singapore	54,093,070
3	Kuala Lumpur International Airport	Kuala Lumpur	Malaysia	48,918,988
4	Suvarnabhumi International Airport	Bangkok	Thailand	46,423,352
5	Ninoy Aquino International Airport	Manila	Philippines	34,094,159
6	Tan Son Nhat Airport	Ho Chi Minh City	Vietnam	22,140,348
7	Don Mueang International Airport	Bangkok	Thailand	21,546,568
8	Ngurah Rai Airport	Denpasar (Bali)	Indonesia	17,238,472
9	Juanda Airport	Surabaya	Indonesia	16,529,115
10	Phuket International Airport	Phuket	Thailand	11,401,498
11	Kuala Namu International Airport	Medan	Indonesia	7,965,491
12	Sultan Aji Muhamad Sulaiman Airport	Balikpapan (Sumatra)	Indonesia	7,086,405
13	Sultan Hasanuddin Airport	Makassar (Sulawesi)	Indonesia	6,900,467
14	Mactan-Cebu International Airport	Lapu-Lapu City (Cebu)	Philippines	6,839,849
15	Kota Kinabalu Airport	Kota Kinabalu	Malaysia	6,792,968
16	Chiang Mai International Airport	Chiang Mai	Thailand	6,630,624
17	Adisucipto International Airport	Yogyakarta (Java)	Indonesia	6,227,791
18	Penang International Airport	Penang Island	Malaysia	6,041,583
19	Kuching Airport	Kuching	Malaysia	4,852,822
20	Yangon Mingaladon Airport	Yangon	Myanmar	4,384,232

Source: CAPA, DBS Bank

Half the world's population is within five hours from ASEAN. Using a 5-hour flight radius (average maximum distance of a short-haul narrow-body plane), destinations that can be covered from the main aviation hubs (Bangkok Suvarnabhumi Airport, Singapore Changi Airport, Kuala Lumpur International Airport), comprise almost the entirety of Southeast Asia, China, India and even parts of Australia.

ASEAN home to some of the busiest flight routes in the world. Of the top 50 busiest flight routes in the world, the ASEAN region has a substantial number of entries in the list of top 50 business routes in the world. Out of the 14 ASEAN routes highlighted, we note that five are linked to Indonesia – of which 80% are domestic (i.e. Indonesia-Indonesia)

Major Destinations in Southeast Asia within Five-hour Flight Radius



Source: Airbus, DBS Bank

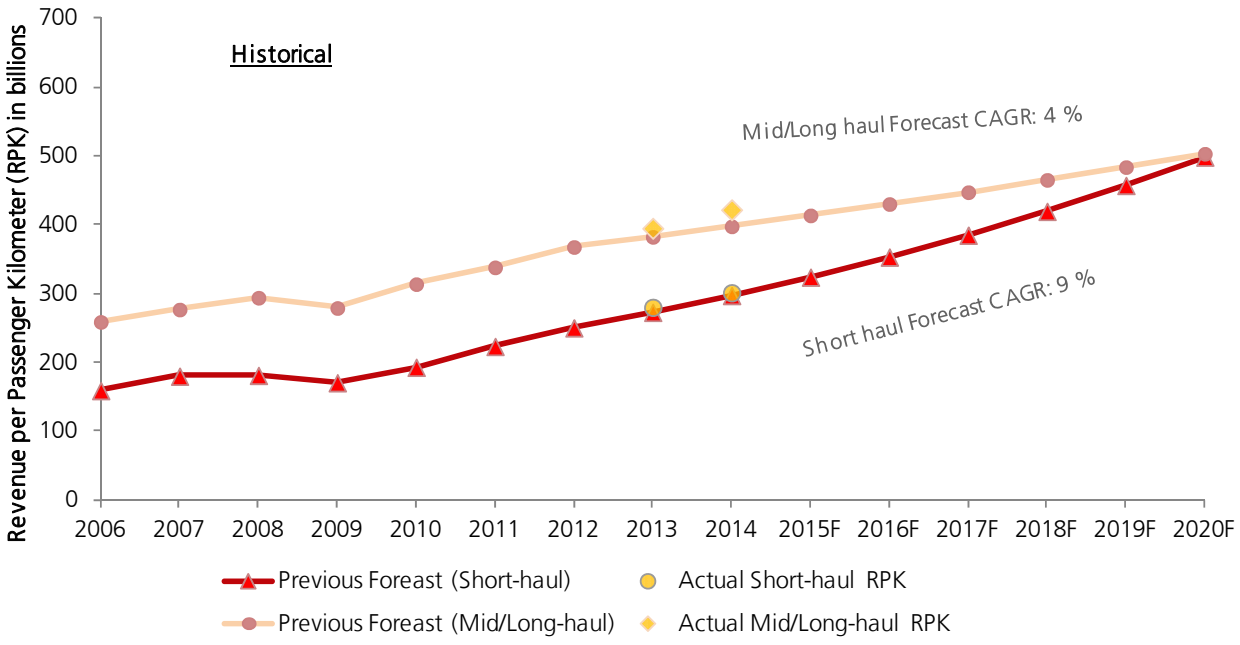
ASEAN Domestic and International Routes in the Top 50 Busiest Routes in the World (as of 02 Aug 2015)

Rank	Origin	Destination	Type	Total Seats
8	Ho Chi Minh City Tan Son Nhat Airport	Hanoi Noi Bai Airport	Domestic	145,680
11	Jakarta Soekarno-Hatta International Airport	Surabaya Juanda Airport	Domestic	131,729
14	Hong Kong International Airport	Bangkok Suvarnabhumi International Airport	International	113,923
15	Singapore Changi Airport	Jakarta Soekarno-Hatta International Airport	International	113,829
19	Singapore Changi Airport	Kuala Lumpur International Airport	International	102,737
20	Jakarta Soekarno-Hatta International Airport	Bali Denpasar Ngurah Rai Airport	Domestic	100,594
21	Jakarta Soekarno-Hatta International Airport	Medan Kuala Namu International Airport	Domestic	98,438
26	Manila Ninoy Aquino International Airport	Mactan-Cebu International Airport	Domestic	93,819
27	Jakarta Soekarno-Hatta International Airport	Makassar Sultan Hasanuddin Airport	Domestic	93,784
34	Hong Kong International Airport	Singapore Changi Airport	International	87,463
39	Chiang Mai International Airport	Bangkok Don Mueang International Airport	Domestic	80,158
45	Ho Chi Minh City Tan Son Nhat Airport	Da Nang Airport	Domestic	75,904
49	Hanoi Noi Bai Airport	Da Nang Airport	Domestic	72,496
50	Singapore Changi Airport	Bangkok Suvarnabhumi International Airport	International	72,050

Source: CAPA, DBS Bank

What Could ASEAN Aviation Look Like in 2020?

Southeast Asia Air Traffic Forecast into 2020



Source: Boeing Current Market Outlook 2015-2034, DBS Bank

2013 and 2014 ASEAN RPK in line with our previous forecasts. Our forecasts for short-haul and mid/long-haul RPK in 2013 and 2014 were largely in line with actual growth, although our estimates for mid/long-haul were slightly more conservative at 4% vs. actual growth of c.5% p.a..

ASEAN Open Skies and the region's growing affluence are key growth drivers. The removal of aviation barriers will increase intra-region competition between carriers, drive down air fares, and open more point-to-point destinations to cater to the growing demand for regional travel, especially in Indonesia and the Philippines.

Our analysis suggest Indonesian and Philippines' propensity to travel is only one-third to half that of the "Upper Middle Income" countries, i.e. Thailand and Malaysia, and a mere fraction of the developed Singapore's. This suggest significant consumption potential that could be drawn upon, as the region progresses toward a single economic community.

Propensity to Travel: ASEAN5 Aviation Markets

Country	Population (m)	Air Traffic (m seats)	Ratio
Indonesia	252.8	77	30%
Thailand	67.2	36	54%
Malaysia	30.2	29	96%
Singapore	5.5	29	530%
Philippines	100.1	28	28%

Source: World Bank, CAPA, DBS Bank

LCCs to take centre stage. Driven by tighter margins amid competition from short-haul-focused low cost carriers (LCCs), Full Service Carriers (FSCs) with LCC subsidiaries have increasingly adopt LCC-centric growth strategies by using their lower-cost LCC subsidiaries to feed their international route network, instead of solely relying on their domestic FSC network. In response, independent LCC players are expected to be more aggressive in their differentiation strategies, extending their strong growth to take advantage of the expanding ASEAN aviation pie.

We maintain our projections of 4% CAGR for mid/long-haul RPK and 9% CAGR for short-haul RPK into 2020, and expect that short-haul air traffic will surpass mid/long-haul air traffic in ASEAN within the next decade.

ASEAN Open Skies: A Primer on the ASEAN Single Aviation Market

ASEAN currently undergoing a period of change. Taking the lead from US and EU, ASEAN is slowly liberalising its airspace, hoping to create a regional economic bloc and a common market that will stimulate the growth and expansion of the individual aviation industries of the member nations.

Why Airspace Liberalisation is Important to ASEAN Consumers

(1) Protectionist measures create artificial travel barriers and inconvenience to travellers
- Limits the frequency of flights from foreign carriers
- Restricts the airports that foreign carriers are allowed to connect to
- Creates unnecessary re-routing as travellers are often only allowed to land in the capital cities as cabotage is disallowed
- Results in large losses in potential intra-regional air travel

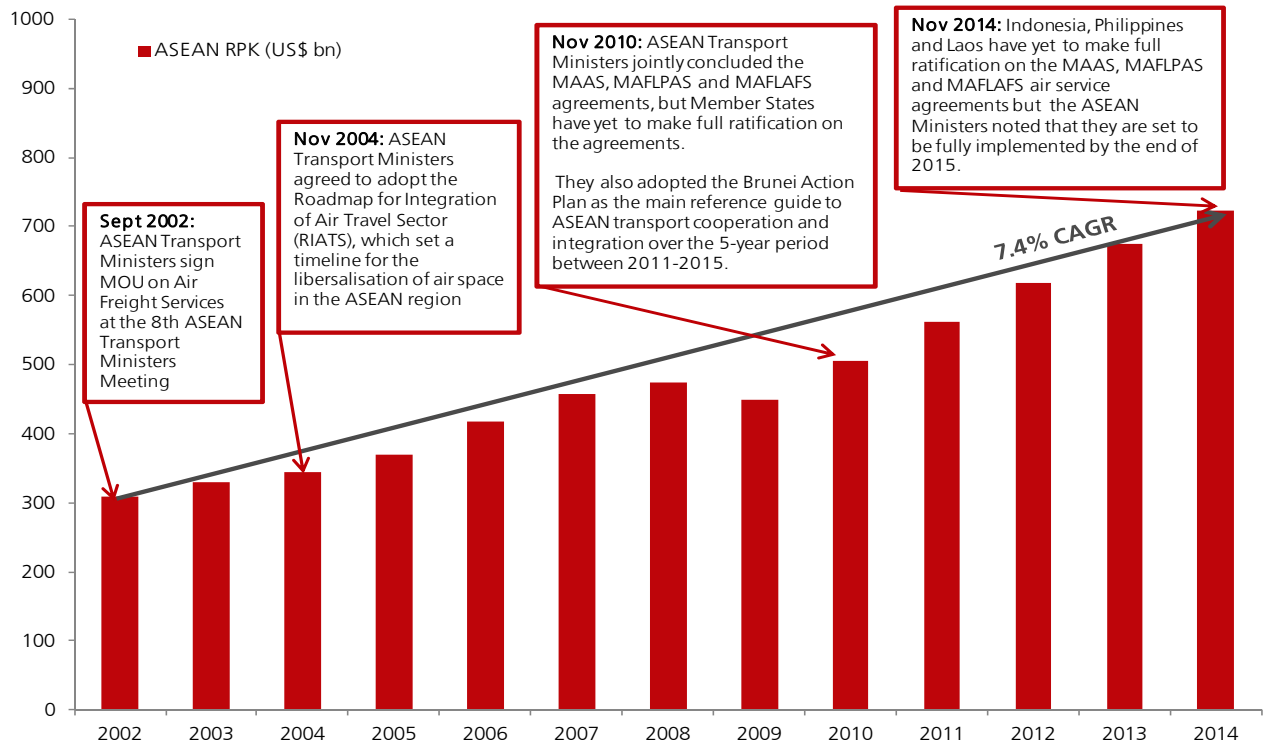
(2) Protectionist measures also artificially inflates air fares, causing a significant drop in demand
- Price-sensitive travellers head to cheaper destinations (Taipei, South Korea) served by local low cost carriers

Source: DBS Bank

Self-enforcing deadline for a modest goal. ASEAN has set a 2015 deadline for the establishment of a "Single Aviation Market" for the region, which will lead to the removal of the 3rd, 4th, and 5th airspace freedom restrictions in the region.

While the ASEAN Open Skies agreement would not be as encompassing as the US or EU's (up to 9th freedom), the removal of 3rd-5th airspace freedom restrictions is a big step towards the eventual complete liberalisation of the ASEAN airspace. Key milestones in the liberalisation process are highlighted in the following page.

Development of ASEAN Open Skies



Source: Boeing Current Market Outlook 2015-2034, DBS Bank, Association of Southeast Asian Nations (ASEAN)

Integrated cross-border transport network vital to the creation of a single economic community. During the 12th ASEAN Summit held on 13 January 2007 in Cebu, the ASEAN Leaders had committed to the accelerated establishment of the ASEAN Community by 2015; which includes the ASEAN Economic Community (AEC). This was driven by the belief that an efficient, secure and integrated transport network in ASEAN is vital for: (1) realising the full potential of the regional economic integration, (2) further enhancing the attractiveness of the region as a single production, tourism and investment destination, and (3) narrowing development gaps in the region.

In as early as 1992, the Framework Agreement on Enhancing ASEAN Economic Cooperation had set an integrated transport network as the ultimate objective for the cooperation and integration of the ASEAN transport sector. This objective was later affirmed in the AEC Blueprint and Roadmap for the ASEAN Community adopted by ASEAN Leaders in 2009.

To achieve this objective, the cooperation and integration of the ASEAN transport sector has been guided by a series of consecutive plans of actions, including the ASEAN Transport Action Plan (ATAP) 2005-2010, that covers land, air, and maritime transport, and transport facilitation. Upon expiry in 2010, the ATAP was replaced by the ASEAN Strategic Transport Plan (ASTP) 2011-2015, also referred to as the Brunei Action Plan (BAP) 2011-2015.

ASEAN Transport Action Plan (ATAP) 2005-2010

ASEAN Transport Action Plan		
	Goals	Strategic Thrust
Air Transport	- Establishment of a regional open sky arrangement to support regional economic integration. - Achieving globally-acceptable standards in aviation security and safety.	- Implementing the regional plan on the ASEAN Open Sky Policy, on a staged and progressive basis. - Promoting performance-based navigation and satellite-sensing surveillance systems to effectively control air traffic and improve safety in airspace.

Source: Association of Southeast Asian Nations (ASEAN)

ATAP and RIATS. ATAP, together with the Roadmap for Integration of Air Travel Sector (RIATS), identified sector goals and strategic thrusts in ASEAN air transport cooperation, setting specific actions and milestones for greater integration and liberalisation of ASEAN air freight and passenger services, including the ASEAN Open Skies Policy, on a staged and progressive basis.

Roadmap for Integration of Air Travel Sector (RIATS)

Target date for ASEAN Open Skies: 2015

Goals

1) Significant liberalisation of air freight (cargo) services by 2006, full liberalisation by 2008

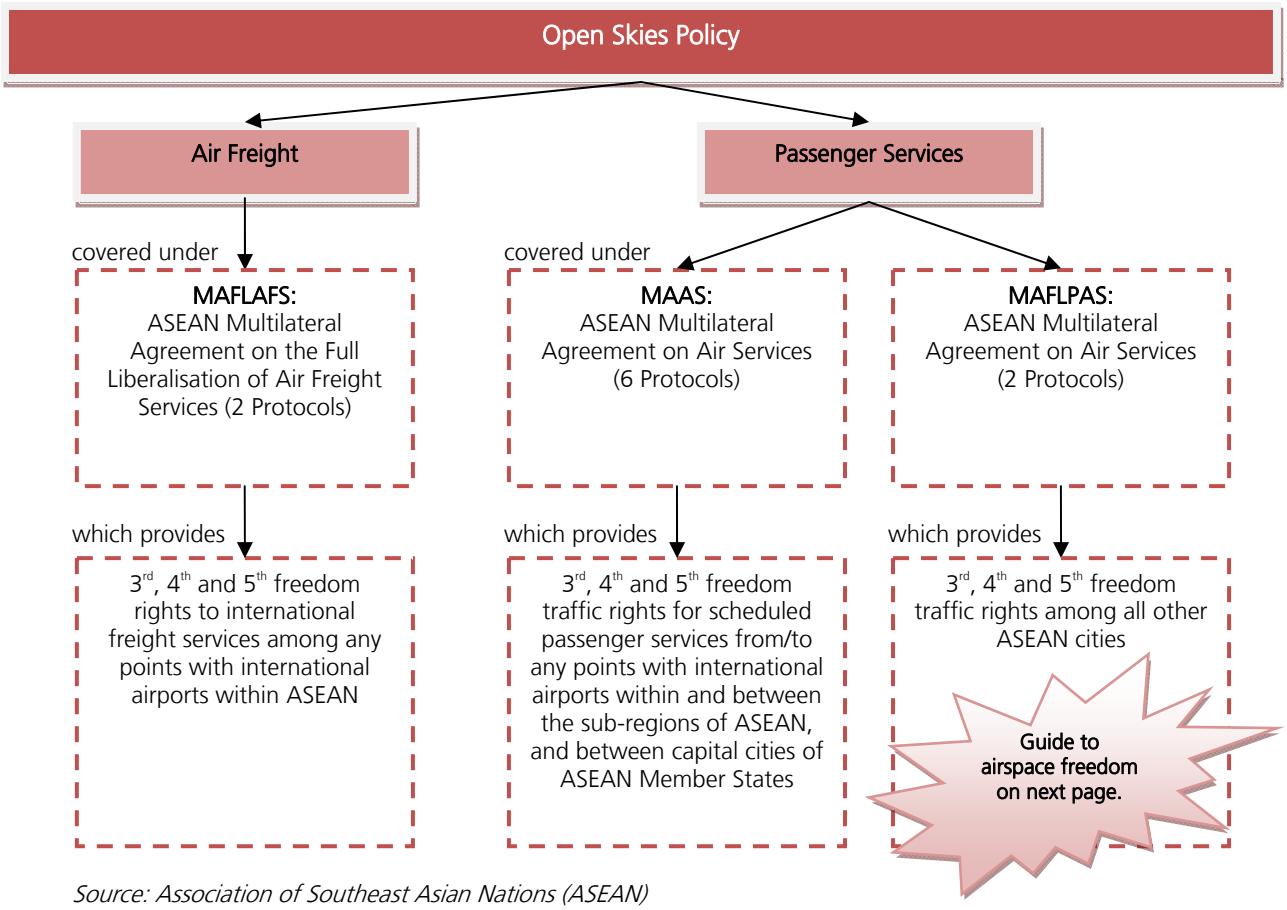
2) Unlimited 3rd and 4th freedom flights for all designated points within ASEAN sub-regions by 2005, and for at least two designated points in each country between the ASEAN sub-regions by 2006

3) Unlimited 5th freedom traffic between designated points within the ASEAN sub-regions by 2006 and at least two designated points in each country between the ASEAN sub-regions by 2008

4) Unlimited 3rd and 4th freedom flights between the capital cities by 2008

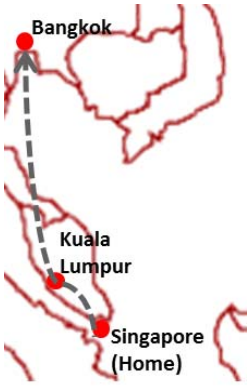
5) Unlimited 5th freedom flights between the capital cities by 2008

Source: Alan Khee-Jin Tan (2013), "Toward a Single Aviation market in ASEAN: Regulatory Reform and Industry Challenges", pp.1-2



Source: Association of Southeast Asian Nations (ASEAN)

A Quick Guide to Freedoms of the Air

1st	2nd	3rd	4th	5th
The right to fly across a foreign country's territory without landing	The right to land in another country's territory for non-traffic purposes, i.e. refuelling/maintenance	The right to transport passengers or cargo from home country of the carrier to a foreign country	The right to transport passengers or cargo from a foreign country to the home country of carrier	The right to put down and to take on, in the territory of the first country, passengers or cargo coming from or destined to a another country other than the home country of the carrier
Example: Singapore (Home) to Bangkok (Foreign) while flying over Malaysia 	Example: Singapore (Home) to KL (refuel) to Bangkok (Foreign) 	Example: Singapore (Home) to KL (Foreign) 	Example: KL (Foreign) to Singapore (Home) 	Example: Singapore (Home) to KL (Foreign) to Bangkok (Foreign) 

6th	7th	8th	9th
The right to transport, via the home country of the carrier, traffic moving between two foreign countries	The right to transport traffic between the territories of two foreign countries with no requirement to include on such operation any point in the territory of the home carrier	The right to transport domestic traffic between two points in the territory of a foreign country on a service which originates or terminates in the home country of the foreign carrier	The right to transport domestic traffic of a foreign country on a service performed entirely within the territory of the foreign country
Example: Bangkok (Foreign) to Singapore (Home) to Ho Chi Minh City (Foreign) 	Example: Bangkok (Foreign) to Ho Chi Minh City (Foreign) 	Example: Singapore (Home) to Medan (Foreign Domestic) to Jakarta (Foreign Domestic) 	Example: Jakarta (Foreign Domestic) to Medan (Foreign Domestic) 

Source: DBS Bank, CAPA

ASEAN Strategic Transport Plan (ASTP) / Brunei Action Plan (BAP) 2011-2015

Brunei Action Plan		
	3 Goals	Action Plan
Air Transport	- Establish an ASAM	- Formulate an ASAM Roadmap and implementation strategy by 2011 and develop an ASAM by 2015 - Ratify and implement the RIATS Agreements and MAFLPAS - Implement the liberalisation of the ASEAN Air Transport Ancillary Services by 2015 - Enhance the involvement of private sectors/airlines
	-Promote environmentally-friendly aviation, and	- Develop programmes to improve environmentally-friendly aviation
	-Enhance engagement with Dialogue Partners to promote greater connectivity	- Conclude the Air Transport Agreement (ATA) with China by 2010, India by 2011, Republic of Korea and possibly other Dialogue Partners, not later than 2015, and thereafter consider the possible expansion to other partners

Source: Association of Southeast Asian Nations (ASEAN)

ASEAN Single Aviation Market guided by the Implementation Framework and Roadmap. The ASEAN Single Aviation Market (ASAM) is one of the key pillars supporting the establishment of the AEC, through the facilitation of free, efficient, safe and secure movement of people and goods within and potentially beyond ASEAN.

The goal of an ASAM is guided by the Implementation Framework and Roadmap, which encompasses the necessary actions and specific time-bound measures that ASEAN Member States shall pursue in order to achieve the ASAM.

Key economic and technical elements that are addressed include:

Economic Elements	Technical Elements
Market Access	Aviation Safety
Charters	Aviation Security
Airline Ownership and Control	Air Traffic Management
Tariffs	
Commercial Activities	
Competition Law and Policy / State Aid	
Consumer Protection	
Airport User Charges	
Dispute Resolution	
Dialogue Partner Engagement	

Source: Association of Southeast Asian Nations (ASEAN)

In order to achieve ASAM, all ASEAN Member States were encouraged to ratify and implement the already-concluded agreements to implement the ASEAN Open Skies Policy (i.e. MAFLAFS, MAAS, MAFLPAS, and their respective Protocols).

Update of ASEAN Open Skies Agreements and Ratification Status. We note that since our last update in 2013, there has been progress in the Member States' ratification statuses but as of June 2015, Indonesia, Laos and the Philippines had yet to fully ratify.

ASEAN Members' Ratification Status (26 June 2015)

Agreement	MAFLAFS		MAAS		MAFLPAS	
Description	Removes 3rd/4th/5th freedom restrictions among:		Removes 3rd/4th/5th freedom restrictions among capital cities		Removes 3rd/4th/5th freedom restrictions among all ASEAN cities	
Freedoms	Designated points in ASEAN	All points with international airports in ASEAN	3rd/4th	5th	3rd/4th	5th
Countries	Ratification Status					
Singapore	✓	✓	✓	✓	✓	✓
Malaysia	✓	✓	✓	✓	✓	✓
Thailand	✓	✓	✓	✓	✓	✓
Vietnam	✓	✓	✓	✓	✓	✓
Indonesia	✗	✗	✓	✓	✗	✗
Philippines	✓	✓	✓	✗	✓	✓
Cambodia	✓	✓	✓	✓	✓	✓
Laos	✓	✓	✓	✓	✗	✗
Myanmar	✓	✓	✓	✓	✓	✓
Brunei	✓	✓	✓	✓	✓	✓

Source: Association of Southeast Asian Nations (ASEAN)

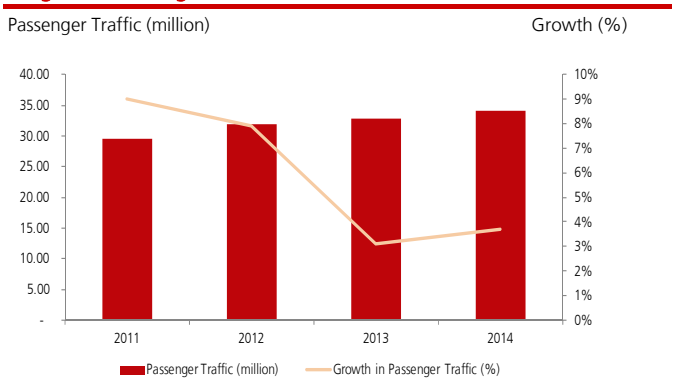
Five Indonesian cities ready for Open Skies. Although Indonesia has accepted the Protocols pertaining to airspace freedom on its capital, Jakarta, there is no available capacity at the already congested Soekarno-Hatta Airport. As such, we do not expect any additional flights from the implementation of the MAAS agreement.

Indonesia has yet to ratify on the MAFLPAS Protocols but as of end-2014, at least four other Indonesian cities (Medan, Surabaya, Denpasar and Makassar) were ready to fully open their skies to unlimited flights operated by ASEAN airlines. According to sources from the Ministry of Air Transportation in Indonesia, there are no major foreseeable hurdles to the ratification that is expected to be completed in the form of a presidential regulation later this year.

Laos yet to accept Protocols under MAFLPAS. Laos has yet to accept Protocols under MAFLPAS as of June 2015. However, the government has already selected four airports (i.e. one in Vientiane, three from the provinces of Luang Prabang, Savannakhet and Champassak) which can fulfill international standards, as ASEAN airports. Nevertheless, we believe Laos is unlikely to ratify the protocols by end-2015, amid concerns that the much bigger competing regional airlines may enjoy economies of scale and purchasing power that Laotian airlines will not be able to achieve. This could put its national carrier, Lao Airlines, out of business.

Philippines likely to follow in Jakarta's footsteps. The Philippines is the only ASEAN member which has not ratified the Protocol for 5th freedom restrictions under the MAAS agreement. The primary reason for not ratifying the agreement for its capital city, Manila, is due to the lack of infrastructure at Ninoy Aquino International Airport (NAIA), which has been plagued by inefficiencies (i.e. traffic congestion and flight delays).

Stagnant Passenger Traffic (NAIA)



Source: CAPA

Clark International Airport (CIA) has ambitions to recapture lost traffic from the congested NAIA. But, it may not be commercially viable as an international gateway to Manila, as it is located 100km away from the city centre, and there is inadequate land or rail connectivity. Meanwhile, NAIA was already operating at full capacity of c.32m in 2014, and the next airport expansion plan is only expected in 2016. Nonetheless, we believe that the Philippines is likely to follow in Indonesia's footsteps in the ratification of airspace freedom for its capital, Manila.

Are we likely to see a complete ratification of the ASEAN Open Skies Agreement (3rd, 4th and 5th freedom rights across the entire ASEAN) by the stated deadline of 2015? During the last ASEAN Transport Ministers' Meeting held on 27 November 2014, the ASEAN leaders reiterated that the ASEAN air services agreements (MAFLAFS, MAAS, and MAFLPAS) were set to be fully implemented by 2015.

We hold a similar view that complete ratification of up to 5th freedom rights across ASEAN by end-2015 is possible (with room for slight delays to actual implementation), but envision that full ratification will only be in theory and not in substance as several obstacles to true 5th freedom of the air remain in reality:

(1) Slot restrictions – Despite air agreements translating into unlimited flights among ASEAN airlines, allocation is limited by lack of slot capacity (especially in capital cities) and subject to approval from airports

(2) Lack of infrastructural support.

However, in the long term, progress towards an EU Open Skies model is both inevitable and necessary. It will rely on greater regional economic integration, which will likely require more time, given the current level of economic disparity and development gap among member nations.

For truly open skies, we need to look beyond aviation freedom. One key distinction between ASEAN Open Skies and EU Open Skies would be the restrictions and controls on foreign ownership and free labour. In the EU Open Skies agreement, foreign ownership is unrestricted and anyone in the EU can own a business in any part of the EU.

As for ASEAN, most countries still require local ownership over a substantial portion of the business, which will deter potential foreign investments. Restrictions on free movement of labour also interrupt the recruitment process, which limits the labour pool to local talent. The issue of "foreign ownership" and free movement of labour are thus crucial to the region's development.

ASEAN had previously targeted to lift foreign ownership restrictions to 70% by 2015. As it gradually adopts the EU Open Skies model, we expect further relaxation of regulations on foreign ownership.

Regional Bloc	1st/2nd/3rd/4th/5th Freedoms	6th/7th/8th/9th Freedoms	Foreign Ownership
ASEAN	✓	✗	Limited
EU	✓	✓	Unlimited

Source: DBS Bank

LCCs poised to benefit. Looking at the past examples of the US and EU, the liberalisation of airspace has traditionally resulted in a significant increase in competitiveness among airlines, pushing down air fares and creating much more affordable air travel. LCCs were the biggest beneficiaries from the implementation of Open Skies policies in US and EU, with Southwest (US) and Ryanair (EU) emerging as large regional players due to the removal of protectionist policies that had previously closed off lucrative routes.

ASEAN5: Roadmaps to Infrastructure Investment

Urgent need for infrastructure. A successful regional aviation market requires both regulations and supporting infrastructure. With the MAFLAFS, MAAS and MAFLPAS agreements on track for full ratification and implementation by end-2015, ASEAN will be taking a huge step towards unification. Going forward, we believe that there is room for further liberalisation in the fast-growing ASEAN aviation space, supported by enhancements to air transport infrastructure.

Singapore: Prime Southeast Asian Air Hub. Changi Airport grew at a CAGR of 6% over the last decade to post record high passenger volumes of 54m from its three terminals in 2014. Having concluded air service agreements with more than 130 states and territories (including more than 60 Open Skies agreements) and in anticipation of intra-ASEAN open skies, Singapore has in the pipeline, several key projects to accommodate future passenger growth:

(1) Jewel Changi Airport

When completed in 2018, this mixed-use complex will raise the capacity of Terminal 1 by c.14% to 24m passengers. It will also introduce new facilities such as early check-in facilities, a multi-modal transport lounge offering dedicated services for fly-coach and fly-cruise passengers, new attractions, as well as new retail and dining options.

Artist's Impression of Jewel Changi

Source: Changi Airport

(2) Terminals 4 and 5

Slated to open in 2017 with at least six airlines, Terminal 4 alone is expected to move up to 16m passengers a year. However, based on the government's projections, capacity at the three existing terminals and the upcoming Terminal 4 are likely to be fully utilised by the mid-2020s.

Terminal 5 is poised for completion in the mid-2020s and will sit on a 1,080-hectare site - 10 times the size of VivoCity. Although it has a planned capacity of 50m passengers, the terminal will be built in phases so that the pace of construction can be managed in line with air traffic growth. To support expansion, an initial capitalisation of S$3bn has been set aside in the Changi Airport Development Fund, with more to be added (as the Budget allows) in the coming years.

(3) Three-runway System
Changi Airport currently has two parallel runways, but is moving toward a three-runway system. The contract for land preparation work was awarded in Oct 2014, and completion will likely take place in the early 2020s. Meanwhile, the Civil Aviation Authority of Singapore (CAAS) will implement capacity optimisation measures on existing runways to accommodate growth in the near term.

Malaysia: Boosting Rural Connectivity. Malaysia Airport Holdings (MAHB) manages and operates 39 of Malaysia's 40 airports – five of which are world-class international airports, 16 domestic airports and 18 short take-off and landing airports (STOLports). The remaining airport not operated by MAHB is the Senai Airport, which is owned and operated MMC Corporation.

STOLports Managed by Malaysia Airport Holdings

Sarawak	Sabah	Peninsula Malaysia
Bakalalan	Kudat	Pangkor
Bario	Long Pasia	Redang
Belaga	Semporna	Tioman
Kapit		
Lawas		
Long Akah		
Long Banga		
Long Lellang		
Long Semado		
Long Seridan		
Marudi		
Mukah		

Source: Malaysia Airports

The Tenth Malaysia Plan (2011-2015) set out to improved airport capacities as passenger volumes grew by 8.5% p.a. between 2010 and 2014, and greater airport connectivity to the rural areas:

(1) Capital City
KLIA2, the low-cost carrier terminal at KLIA (Kuala Lumpur International Airport) started operations on 2 May 2014, replacing the former Low-Cost Carrier Terminal (LCCT) to cater to the explosive growth in low-cost travel within the ASEAN region. Costing RM4bn, this terminal has a rated capacity of 45m passengers a year, and is capable to accommodate future capacity expansion. It also has a dedicated runway measuring 4km, unlike the previous LCCT which had to share the two existing runways with KLIA. In 2014, KLIA2 (May-Dec) and the LCCT (Jan-Apr) recorded a combined passenger growth of 10.1% to 24m.

(2) Other Cities
During the 5-year period, capacity upgrading works were also undertaken in other parts of Malaysia, such as Kota Kinabalu International Airport, Sandakan Airport in Sabah, as well as Miri Airport in Sarawak. As recent as in 2014, Sarawak began constructing its new Mukah airport which will replace the current STOLport, with the aim to boost rural connectivity.

The next 5-year period (2016-2020), guided by the following transport plans, will see to continued expansion of secondary airports and improvement of rural connectivity:

(1) 11th Malaysia Plan
In addition to the ongoing construction of the new airport in Mukah, an airport was also built in Lawas, Sarawak to boost rural connectivity.

Artist's Impression of New Mukah Airport

(2) Penang Transport Master Plan
Despite the lack of funding and support under the 11th Malaysia Plan, Penang will go ahead with its own RM27bn Transport Master Plan. Part of this budget will be dedicated to the expansion of the Penang International Airport, was the airport is currently handling more than 6m travellers per year, as it is expected to reach full capacity by the end-2015. To boost the airport's accessibility, the Master Plan will allocate RM4.5bn for the construction of Penang's first 17.5km Light Rail Transit (LRT) line, and is targeted to be operational in the next 5-6 years.

MAHB has been proactive in meeting demand for expansions and infrastructure. With sufficient capacity across most Malaysian airports, we believe that Malaysia possesses the necessary infrastructure and means to accommodate passenger growth in the medium term. However, as the ASEAN region undergoes a period of greater airspace liberalisation, we believe the Malaysian government should do more to boost rural air service connectivity, i.e. infrastructural investments in new airports in place of existing STOLports.

Thailand: Developing More International Gateways. Thailand is home to 38 airports - 34 of which are operated by Airports of Thailand (AOT) and Department of Civil Aviation (DCA). Of the remaining, three are owned and operated by Bangkok Airways and the last serves the Royal Thai Navy. Six of Thailand's key international airports, including the new Bangkok International Airport (Suvarnabhumi) account for c.85% of total airport seat capacity, and are under the management of AOT.

In spite of the turbulence in the Thai tourism and aviation sector, the country's passenger traffic managed to grow at a commendable 11.8% CAGR in 2010-14. In preparation for the ASEAN Community in 2015, Thailand has formulated its "Transport Infrastructure Development Strategy 2015-2022", through which it commits to the followings enhancements to its air transport capabilities:

(1) Airport Capacity Expansion
Suvarnabhumi Airport, being the nation's primary airport, will see its capacity increased from 45m to 65m p.a. Other international gateways in Don Mueang and Phuket are also expected to receive a capacity boost from 18m to 30m p.a. and from 7.5m to 12.5m p.a. respectively. The Ministry of Transport's plans to facilitate international air services in other Thai cities include the redevelopment of Leong Nok Tha Airport and resumption of commercial services within two years, upgrade of military airport (U-Tapao Airport) into a commercial hub by lifting capacity from 100,000 to 3m passengers p.a., etc.

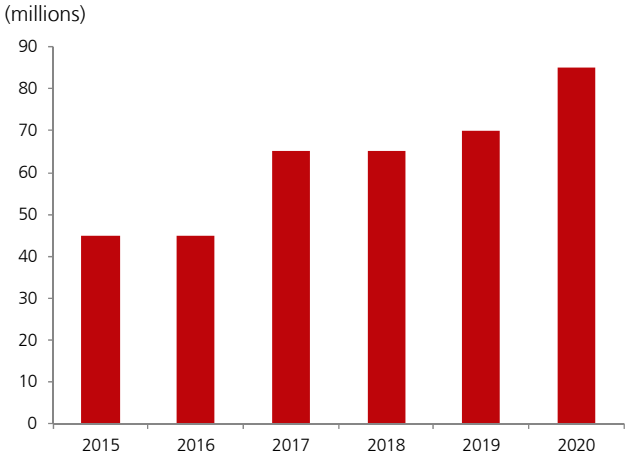
(2) Enhancement in Air Traffic Management Capability

(3) Air Transport Industrial Park

(4) Human Resource Development

(5) Increased Fleet Utilisation
Thai authorities are expected to further relax flight traffic restrictions, in line with its strategy to raise airlines' fleet utilisation. For instance, in Nov 2014, it gave Bangkok Airways the green light to boost flight traffic at Samui Airport from 36 to 50 flights per day.

Forecasted Passenger Handling Capacity - Suvarnabhumi Airport



Source: Ministry of Transport, Thailand

Indonesia: Strong Growth Potential but Lacks Infrastructure. Traffic at Indonesia's top 10 airports grew at a CAGR of 8% between 2010 and 2014, largely fuelled by demand from domestic travellers. At present, domestic flights commands 74% share of the industry seat capacity, and continues to be the primary driver of Indonesia's aviation market. Indonesia has a vast network of 237 airports. Of these, 16 are commercial airports located in big cities, which are managed by the state-run airport operators, PT Angkasa Pura I and PT Angkasa Pura II.

The Ministry of Transport is planning to build another 62 new airports, which will bring the country's total number of airports to 299. Most of these new airports will likely be built in the Eastern part of Indonesia, to improve air connectivity and alleviate the challenging travelling conditions resulting from the unfavourable topography.

However, we are concerned by the lack of capacity and infrastructural support in areas which are in urgent need of expansion. Jakarta's Soekarno-Hatta International Airport is currently handling three times the traffic (60m passengers p.a.) it was initially designed for. There are plans for terminal upgrades, a new runway by 2019 as well as a new Terminal 4 slated for opening in 2021, but we think these expansion plans will still be inadequate to serve Jakarta's long-term growth in aviation traffic.

IATA forecasts that by 2034, Indonesia will serve an estimated 270m passengers p.a. Together with Indonesia's unique geography, a growing middle-class population and aggressive expansion plans by both home-grown and ASEAN carriers, Indonesia's aviation market is poised to dominate the ASEAN aviation space. However, this must be supported by the necessary aviation infrastructure. If this pre-condition is not met, we believe the country will not be able to achieve its growth potential, and the potential benefits of airspace liberalization in Indonesia, will be muted for the ASEAN members.

Philippines: Long Road to Efficiency. Approximately 44% of Philippines' total passenger traffic was handled in Manila by Manila Ninoy Aquino International Airport (NAIA) and Clark International Airport (CIA). Supported by one main runway, one cross runway, and operating slightly above its combined design capacity of 31m passengers p.a., NAIA's operations have been laden with inefficiencies and critique. It was voted as the worst airport three years a row in 2013-14 in the online "Sleeping in Airports" poll. In response, the government transferred five international air carriers from NAIA's Terminal 1 (NAIA 1) to NAIA 3 to reduce the congestion at the airport, which brought the passenger traffic down to its design capacity of 4.5m passengers p.a.

With a designed capacity of 5m, CIA can potentially accommodate the traffic overflow from NAIA but its ability to do so is restricted by its distance of 100km from Metro Manila (or National Capital Region), where most of the air travel demand are.

Proximity of ASEAN5 International Gateway Airports to City Centres

Country	Gateway Airport	City Centre	Distance from City Centre (km)
Indonesia	Soekarno-Hatta International Airport	Jakarta	20
Malaysia	Kuala Lumpur International Airport	Kuala Lumpur	59
Philippines	Ninoy Aquino International Airport	Manila	13
Singapore	Changi Airport	Singapore	19
Thailand	Suvarnabhumi International Airport	Bangkok	30

Source: DBS Bank

Going forward, the government will undertake a PHP74.56bn NAIA Development Project to transform the Philippines' main international gateway into a world-class facility. Under this project, a private partner will be responsible for: (1) upgrading the existing NAIA terminals to increase airports' capacity, (2) handling both landside and airside's operations and maintenance (except air traffic services), (3) increasing operational efficiency, and (4) improving quality of services.

The green light for the "New NAIA" was only given in late Jul 2015, and concrete plans for the project has yet to be announced. In the Department of Transportation and Communications' "Gateway Airport Roadmap towards 2040" as well as IATA's summary of recent discussions surrounding the Manila airports' modernisation plans, the following viable options for the "New NAIA" have been identified:

(1) Single airport system
CIA is developed in Pampanga, while the NAIA is shut down and sold off

(2) Twin airport system
Maximises the operations at NAIA until 2025-2030, before replacing it with a new international airport within 25km or 30 minutes from Metro Manila, to complement operations at CIA (which will be developed concurrently until 2025-2030)

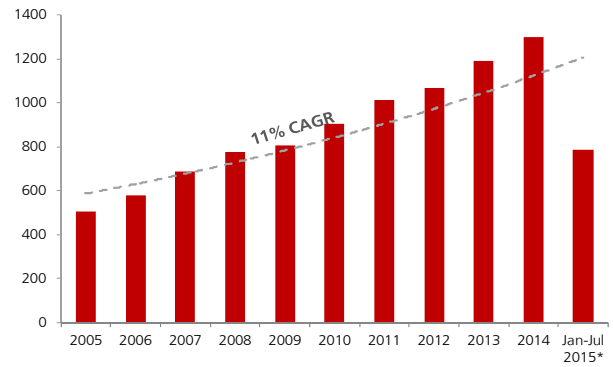
(3) Twin airport system (concurrent developments)
The government would concurrently develop NAIA and CIA, before deciding if it should construct an alternate airport

The roadmap for the Philippines' gateway airports has a much longer time horizon, as compared to the other ASEAN5 nations. But, this is fair, given the degree of reforms required to the present infrastructure, and should pay off in the long term.

Growing Impact of LCCs in ASEAN

Precedents of US and EU. The rise of European LCCs was obvious, after EU created a single aviation market. This is similar to the US in late 1970s, when LCCs expanded tremendously, after the country lifted restrictions of its interstate airspace. Taking US and EU as precedents, the liberalisation of airspace has led to cheaper airfares, denser air traffic networks, and creation of more jobs in the economy. As such, we believe the creation of a single aviation market within the ASEAN region will bring positive externalities that will be a boon to the entire region.

Global LCC Seats (m), 2005-2015*



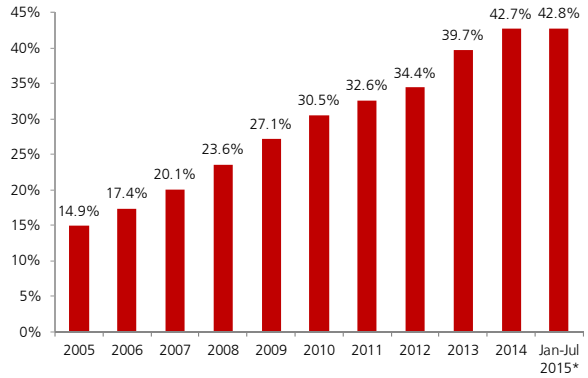
Source: CAPA, DBS Bank

The LCC business model. LCCs focus on a cost leadership strategy, where they are able to reduce unit costs by up to 40% (vs FSCs) through a variety of strategies, such as (1) single airplane type, (2) single passenger class, (3) flying from/to secondary airports, and (4) direct sales via internet, and etc.The LCCs will then pass on the resulting cost savings to the consumers, in attempt to stimulate demand for air travel via lower price points. In response, FSCs will be pressured to match the low prices offered by their low-cost competitors. While customer and value proposition differs between LCCs and FSCs, most customers would rather choose savings over comfort on short-haul flights as the marginal benefit of comfort only increases with flight duration.

Positive externalities of the LCCs industry. The LCCs have been successful in stimulating the demand for air travel, by providing no-frill products with reduced airfares to price sensitive customers. In doing so, they help to boosts tourism and hospitality-related sectors, which rely on air travel as an important distribution channel. As such, governments' stance towards LCCs are generally positive, and have in many cases provided valuable support through the arrangement of lending facilities, reduced import tariffs, less stringent regulations, building of LCCs-dedicated infrastructure, subsidies, and etc.

Closer to home, the LCC model has also done well in the Asia Pacific region. Over the past decade, ASEAN LCCs have gone through a period of rapid expansion and growth on the back of liberalisation of air routes, with a phenomenal 21.5% CAGR in seat capacity. In the process, LCCs have stolen market share from the FSCs. Nearly 20,000 flights in Southeast Asia are now operated by LCCs each week.

Southeast Asia: LCC Growth in Capacity Share (%) of Total Seats, 2005-2015*



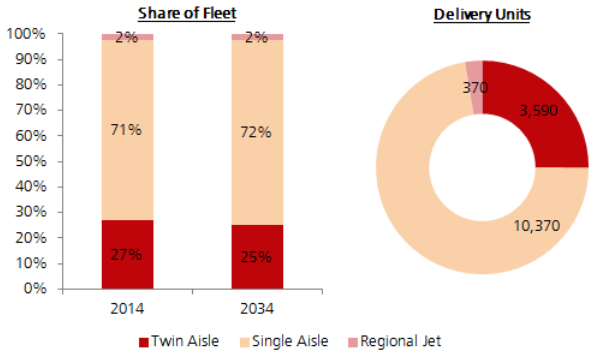
Source: CAPA, DBS Bank

Benefitting from "Open Skies". The implementation of air service agreements across ASEAN member nations will lead to more affordable air travel, due to the resulting heightened competition. We expect this to generate increased demand for business and leisure air travel within the ASEAN region.

LCCs to grow at slow rate in the future. We expect the ASEAN LCCs to continue growing, driven by its attractive price points and extensive regional airport network coverage (especially to smaller airports that are unable to accommodate wide-body aircrafts). However, future growth rates will likely be lower than what was seen in the past decade, as LCC penetration in the ASEAN is becoming increasingly saturated.

Greater demand for single aisle planes. As new airports continue to sprout across ASEAN, LCCs will lead the way to open new routes in the region. As most budget carriers are typically short-haul focused, this will lead to greater demand for single aisle planes in the region. Boeing estimates that in 20 years, 10,370 new single-aisle planes would be required to serve Asia.

Types of Aircraft: Share of Fleet and Total Delivery in 2034



Source: Boeing Current Market Outlook 2015-2034

Challenges and Risks

Limitations to planned airport capacity expansion. As discussed in the earlier sections, many ASEAN gateway airports suffer from over-congestion, and are operating fare beyond their designed capacity. Even with the planned expansions in place, the congestion in some of the key ASEAN airports would merely be alleviated and would not be sufficient for their long-term needs or growth.

Execution risk in pipeline expansion projects. Delays in the pipeline airport capacity expansion plans will constrain the region's aviation traffic growth. In addition, it will limits further talk among ASEAN nations and the progress towards true liberalisation of ASEAN airspace (beyond 5th freedom). Case in point would be Indonesia, which has signalled its intention to construct 62 airports over the next five years, but had only spent 10% of its annual budget for infrastructure projects in 1H15.

Restrictions on foreign ownership. While ASEAN agreements provides for the intra-regional ownership of airlines across member nations' borders (i.e. AirAsia owning Thai AirAsia), each ASEAN country retains the right to deny approval to any carrier seeking to enter their domestic markets. Based on current observations, we think it is unlikely that ASEAN will achieve its goal of lifting foreign ownership restrictions to 70% by the end of 2015 – which will be an obstacle to a more liberalised aviation market.

Foreign Ownership Restrictions in ASEAN

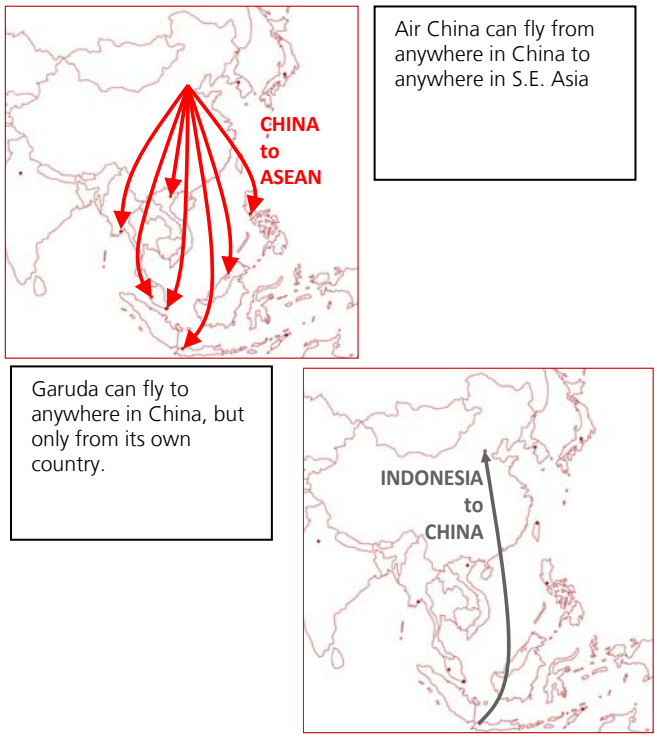
Country	Foreign Ownership Restrictions
Brunei	Maximum foreign ownership between 51% and 80%, subject to government discretion
Cambodia	Limit on foreign ownership, but subject to government discretion
Indonesia	Maximum foreign ownership (49%)
Lao	Maximum foreign ownership of 100%, but subject to government discretion
Malaysia	Maximum foreign ownership (49%)
Myanmar	Maximum foreign ownership of 100%, but subject to government discretion
Philippines	Maximum foreign ownership (40%)
Singapore	Maximum foreign ownership (51%)
Thailand	Maximum foreign ownership (49%)
Vietnam	Maximum foreign ownership between 30% and 100%, but subject to government discretion

Source: Association of Southeast Asian Nations (ASEAN)

Failure for ASAM to materialise will put ASEAN at a disadvantage. The true benefit of a liberalised ASEAN airspace will only be seen when ASEAN, as a single bloc, establishes deals with countries outside the region. The inability or unwillingness of individual ASEAN member nations to commit to liberalisation may instead strengthen the competitive position of non-ASEAN airlines.

For instance, the ASEAN-China Air Transport Agreement that is in force among China, Singapore, Brunei, Malaysia, Thailand, Myanmar and Vietnam (while the four remaining ASEAN countries have the right to accept when ready) would allow Chinese carriers to fly anywhere in China to anywhere in Southeast Asia while ASEAN carriers can only fly from their own country to anywhere in China (except Macau, Hong Kong and Taiwan). If China signs complete 5th freedom rights ahead of ratification among ASEAN members, Chinese airlines would have a significant competitive advantage over their ASEAN counterparts.

Potential Imbalance between Chinese and ASEAN Players



Source: DBS Bank

Earnings Outlook: ASEAN Airlines in Recovery Mode

Airlines' earnings to recover in 2015. We expect airlines under our coverage to register significant earnings improvement in 2015F (vs the disappointing earnings in 2014), driven by lower fuel costs. Three out of four loss-making carriers, i.e. GIAA, Tigerair and THAI are expected to turn around in 2015F while AAX should be back in the black by 2016F. We forecast airlines' RPK to grow 5% in 2015F, which is a considerable improvement from the modest 2.1% in 2014F. Capacity growth is expected at a lower rate of 3.6%, which could ease the pressure on yields. We expect four out of the eight airlines (i.e. AAV, AAX, BA, Tigerair) to maintain or improve their yields in 2015F.

ASEAN Airlines EBIT (2013 to 2016F)

EBIT	2013	2014	2015F	2016F
AAV (THB m)	2,472	517	4,221	4,814
AAX (MYR m)	64	(298)	(24)	104
AIRA (MYR m)	863	826	1,005	1,083
BA (THB m)	1,657	496	2,698	4,103
GIAA (US$ m)	63	(399)	173	199
SIA (S$ m)*	259	409	691	976
Tigerair (S$ m)*	(52)	(40)	44	66
THAI (THB m)	(11)	(17,329)	14,835	15,372

** FYE Mar '14, '15, '16, '17 respectively*

Source: Company, DBS Vickers Research

Prospects boosted by cheaper fuel and other contributory factors. Jet fuel price in 1H15 was about 36% lower in comparison to the average in 2014. Meanwhile, the region's overcapacity risk is receding, and passenger factors are expected to improve or stabilise going forward (with AIRA and AAX bring the exceptions). In addition, Thai-listed airlines such as AAV and BA are expected to report significantly better earnings, on improving market conditions in Thailand (i.e. economic recovery, rising inbound tourism). THAI and Tigerair are forecasted to turn around, aided by the conducive conditions and their restructuring programmes.

ASEAN airlines' RPK growth to recover to 5% in 2015F, vs. the 2.1% growth in 2014. The higher RPK growth will mainly be driven by GIAA, AAV and THAI. The expected growth of CIAA is driven by the expanding Indonesian economy (forecasted to grow at 5.5%/5.7% in 2015/16). Meanwhile, the Thai-based airlines will be boosted by the recovering economic conditions in Thailand (projected to grow at 3.6%/4.3% in 2015/16) and the vibrant inbound tourism market (tourist arrivals rose 24% y-o-y in 1H15).

ASEAN Airlines RPK Growth (2013 to 2014F)

RPK Growth	2013	2014	2015F	2016F
AAV	25.7%	14.7%	18.8%	11.8%
AAX	16.6%	31.3%	-0.8%	6.4%
AIRA	11.6%	2.5%	6.3%	3.1%
BA	14.7%	33.8%	15.9%	16.8%
GIAA	16.9%	12.7%	13.4%	10.2%
SIA*	1.4%	-0.9%	1.0%	1.0%
Tigerair*	16.3%	4.0%	1.6%	5.4%
THAI	4.6%	-9.9%	4.5%	1.1%

**FYE Mar '15 for FY14; *SIA mainline only*

Source: Company, DBS Vickers Research

SIA leads the pack in terms of absolute RPK, while THAI is a distant second. Due to the challenging market conditions, SIA is forecasted to grow at a slow rate (1% in 2015) while yield is also expected to drop by 1.8% in 2015. THAI and AAV are projected to expand at a significant rate, driven by the improving market conditions in Thailand, though yields are likely to remain depressed (-3.3% and +1% respectively in 2015). GIAA is expected to grow at a high rate, but yield is forecasted to fall by 5% in 2015, which is partly attributed to the depreciation of IDR against US$.

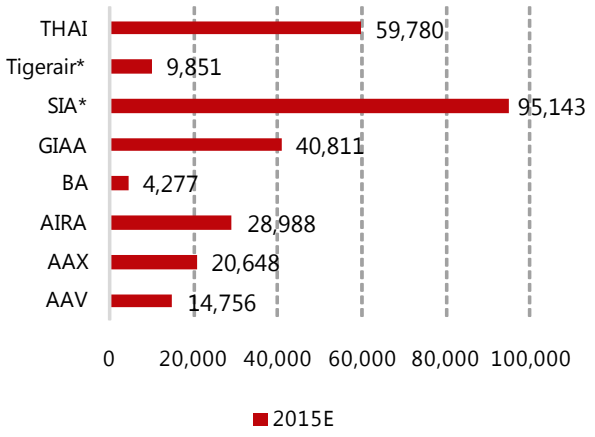
ASEAN Airlines RPK in m p-km (2013 to 2016F)

RPK (m p-km)	2013	2014	2015E	2016F
AAV	10,829	12,420	14,756	16,492
AAX	15,857	20,817	20,648	21,960
AIRA	26,607	27,274	28,988	29,900
BA	2,759	3,691	4,277	4,994
GIAA	31,950	35,997	40,811	44,969
SIA*	95,064	94,209	95,143	96,094
Tigerair*	9,325	9,697	9,851	10,382
THAI	63,479	57,194	59,780	60,409
Total	**255,871**	**261,300**	**274,254**	**285,201**

**FYE Mar '15 for FY14; *SIA mainline only*

Source: Company, DBS Bank

Projected Absolute RPK in 2015 (m p-km)



**FYE Mar '15 for FY14; *SIA mainline only*
Source: Company, DBS Bank

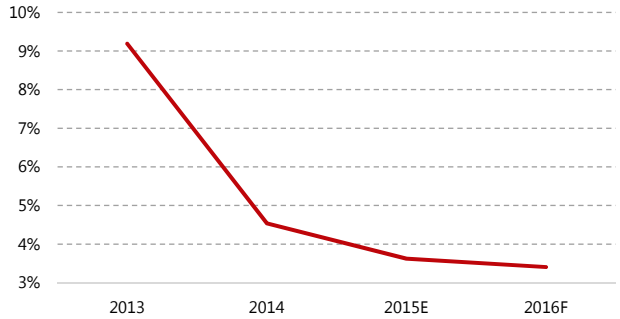
Moderating capacity growth. The ASEAN airlines we cover significantly reduced their capacity growth to 4.5% in 2014 (2013: 9.2%). But, they are projected to generate a modest increase in total capacity of 3.6%/3.4% in 2015/16. Regional heavyweight SIA is projected to post a marginal increase 1% p.a. in the capacity of its flagship passenger brand in the next two years. The top three fast growing carriers among the ASEAN airlines we cover are AAV (16% capacity growth in 2015), BA (15.7% growth) and GIAA (10% growth).

ASEAN Airlines' Capacity Growth (2013 to 2016F)

ASK	2013	2014	2015E	2016F
AAV	23.4%	19.1%	16.0%	11.8%
AAX	19.0%	31.4%	5.0%	5.0%
AIRA	12.2%	3.6%	7.4%	1.8%
BA	13.3%	39.2%	15.7%	15.0%
GIAA	19.8%	16.3%	10.0%	8.0%
SIA*	1.9%	-0.4%	1.0%	1.0%
Tigerair*	25.5%	-1.1%	-0.7%	5.4%
THAI	8.1%	-3.1%	-1.0%	1.1%

**FYE Mar '15 for FY14; *SIA mainline only*
Source: Company, DBS Bank

Combined ASK Growth (y-o-y): ASEAN Airlines



Source: DBS Bank

Hence, passenger load factors will likely remain firm; except for AIRA and AAX. load factors for carriers are expected to improve or remain at the same levels. We forecast THAI, Tigerair, GIAA and AAV to improve their passenger load factors considerably over the next two years, while BA and SIA are forecasted to maintain their load factors in this period. In total, we forecast load factor of the ASEAN airlines under our coverage to grow from 75.5% in 2014 to 76.5%/76.9% in 2015/16.

ASEAN Airlines' Passenger Load Factors (2013 to 2016F)

PLF	2013	2014	2015E	2016F
AAV	83.6%	80.5%	82.5%	82.5%
AAX	82.1%	82.0%	77.5%	78.5%
AIRA	79.7%	78.8%	78.0%	79.0%
BA	67.9%	65.3%	65.4%	66.4%
GIAA	74.1%	71.8%	74.0%	75.5%
SIA*	78.9%	78.5%	78.5%	78.5%
Tigerair*	78.1%	82.1%	84.0%	84.0%
THAI	74.1%	68.9%	72.7%	72.7%

**FYE Mar '15 for FY14; *SIA mainline only*
Source: Company, DBS Bank

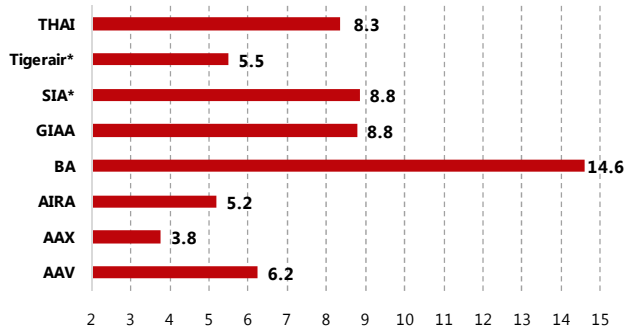
ASEAN Airlines Yields (2014 to 2016F)

Pax Yields	2014	2015E	2016F
AAV (THB)	2.025	2.045	2.077
AAX (MYR)	0.123	0.127	0.133
AIRA (MYR)	0.169	0.158	0.161
BA (THB)	4.744	4.867	4.915
GIAA (US$)	0.088	0.083	0.082
SIA* (S$)	0.112	0.110	0.109
Tigerair* (S$)	0.070	0.074	0.076
THAI (THB)	2.708	2.617	2.670

Source: Company, DBS Bank
**FYE Mar '15 for FY14*

**Mixed outlook for yields due to competition in long-haul routes, and in the case of GIAA, a stronger US$**. Tigerair, AAX and BA are projected to improve their yields while SIA, AIRA, and THAI are forecasted to experience deteriorating yields. Meanwhile, GIAA reports in US$ terms and should also see lower yields due mainly to the US$'s strength against the IDR.

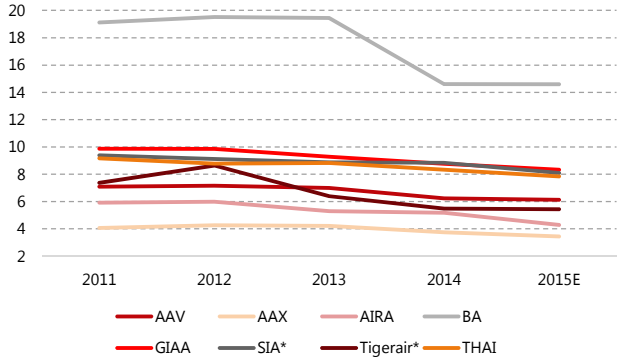
ASEAN Airlines Passenger Yields in US cts (2014)



**FYE Mar '15 for FY14*
Source: Company, DBS Bank

While ASEAN FSCs such as THAI, SIA and GIAA generated passenger yields of between 8.3-8.8 US cts/RPK, the LCCs such as Tigerair, AIRA and AAV only had yields of 5.2-6.2 US cts/RPK. Long-haul budget airline AAX's was even lower at 3.8 US cents/RPK in 2014. BA's passenger yield was way ahead of other ASEAN LCCs at 14.6 US cts/RPK, due to its fairly short flight segments, premium positioning and dominance of slots at Samui Airport.

Regional Airlines' Passenger Yield outlook in US cts



**FYE Mar '15 for FY14*
Source: Company, DBS Bank

In US$ terms, the ASEAN airlines' yields are forecasted to trend downwards in 2015F, mainly due to the expected strengthening of the US$ against the regional currencies.

Regional Airlines' Yields (2011 to 2015E)

Pax Yields	2011	2012	2013	2014	2015E
AAV (THB)	2.165	2.227	2.152	2.025	2.045
AAX (MYR)	0.125	0.132	0.133	0.123	0.127
AIRA (MYR)	0.181	0.185	0.167	0.169	0.158
BA (THB)	5.827	6.069	5.974	4.744	4.867
GIAA (US$)	0.099	0.099	0.093	0.088	0.083
SIA* (S$)	0.118	0.114	0.111	0.112	0.110
Tigerair* (S$)	0.093	0.108	0.080	0.070	0.074
THAI (THB)	2.798	2.727	2.715	2.708	2.617

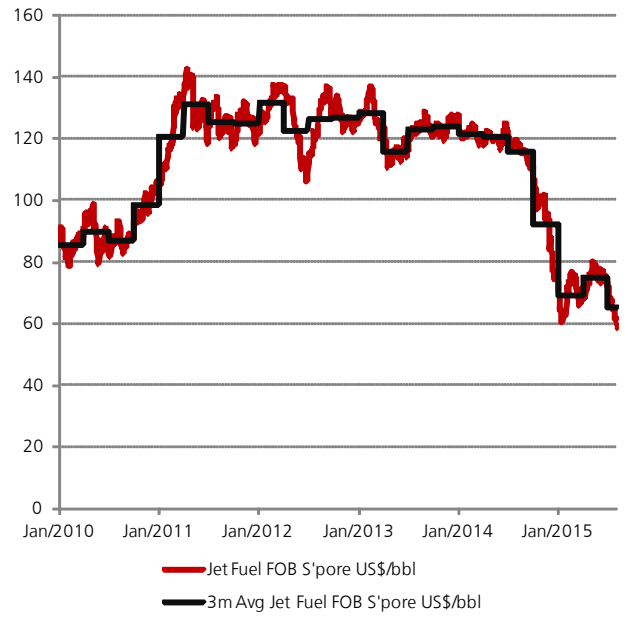
**FYE Mar '15 for FY14*
Source: Company, DBS Bank

Jet Fuel & Forex Outlook and Impact

Jet Fuel Outlook and Impact

Cost relief from lower jet fuel prices. Tracking the crude oil, jet fuel price has declined substantially since 2H14, from a 3-year average of US$125/bbl before mid-2014, to its current level of c.US$60/bbl, representing >50% decline. Jet fuel has traded at US$60-80/bbl over the last seven months, and has provided some cost relief to the region's airlines, especially for those without substantial fuel hedging in place.

Jet Fuel Price FOB Singapore (US$ per barrel) up to 4 Aug '15



Source: ThomsonReuters, DBS Bank

More boost from oil staying low? Spot jet fuel is currently trading at <US$60/bbl. In comparison, our earnings forecasts for the ASEAN airlines under our coverage assume jet fuel price (excluding delivery-factor) to be around US$85/90 per barrel in 2015/16F. If jet fuel price continues to stay for low in 2H15-2016, we may have to raise our earnings forecasts in the future.

Full-service carriers are the largest consumers of jet fuel... SIA, which is the largest carrier in ASEAN, consumes the highest amount of jet fuel among the airlines under our coverage - burning over 36m barrels of jet fuel in FY15 (FYE Mar). This is followed by THAI with nearly 20m barrels in 2014. The three listed companies within the AirAsia group of airlines collectively consumed c.12m barrels of jet fuel in 2014.

Jet fuel consumption of ASEAN airlines under coverage

Company	FY14	FY15F	FY16F
SIA*	36.5	37.2	38.0
Tigerair**	2.0	2.0	2.1
BA	1.2	1.4	1.7
GIAA	11.8	12.6	13.4
AIRA	5.6	6.2	6.3
AAX	3.7	4.0	4.2
AAV	2.7	3.2	3.5
THAI	19.5	17.6	17.8
Total	83.1	84.2	86.9

**FYE Mar '15, '16, '17 respectively, excluding Tigerair*
***FYE Mar '15, '16, '17 respectively*
Source: DBS Bank

... but fuel makes up more of LCCs' total costs. For airlines under our coverage, jet fuel costs as a percentage of revenue ranged between 25-44% for FSCs and 42-52% for LCCs. These ratios will fall as jet fuel prices decline.

Jet fuel as a % of Revenue

Company	FY14	FY15F	FY16F
SIA*	35.8%	29.5%	30.1%
Tigerair**	43.7%	35.7%	34.8%
BA	24.7%	19.9%	19.7%
GIAA	43.5%	31.1%	31.7%
AIRA	41.6%	36.4%	36.6%
AAX	51.8%	35.9%	34.1%
AAV	44.5%	33.7%	34.1%
THAI	42.1%	28.7%	30.2%

**FYE Mar '15, '16, '17 respectively, excluding Tigerair*
***FYE Mar '15, '16, '17 respectively*
Source: ThomsonReuters, DBS Bank

Fuel Price Sensitivity. In light of the razor thin margins, airlines' earnings are very sensitive to changes in jet fuel costs. Each US$1 decrease in jet fuel cost per barrel would lead to 1.9-7.5% increase in operating earnings, for the ASEAN airlines under our coverage.

EBIT sensitivity to each US$1 decrease in jet fuel price*

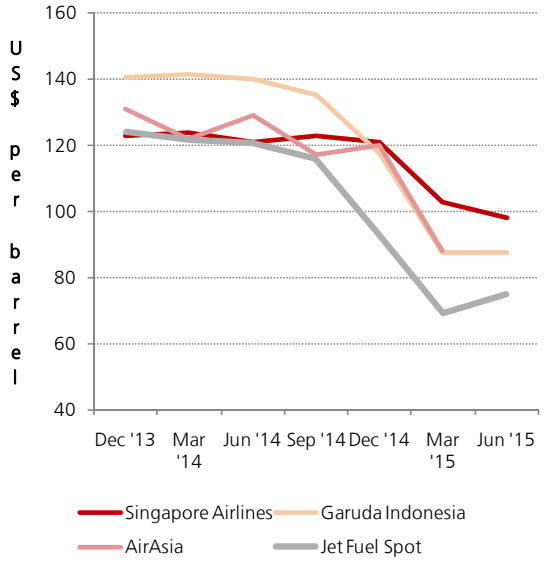
Company	Lcl Crncy	EBIT (m)	Jet Fuel (m bbl)	% Chg EBIT
SIA*	SGD	691	37.2	7.5%
Tigerair**	SGD	44	2.0	6.4%
BA	THB	2,698	1.4	1.9%
GIAA	USD	173	12.6	7.3%
AIRA	MYR	1,005	6.2	2.4%
AAX	MYR	-24	4.0	NA
AAV	THB	4,221	3.2	2.6%
THAI	THB	14,835	17.6	4.2%

**Based on current financial year forecast*

Source: DBS Bank

Fuel hedging policies. Airlines that did not hedge forward a significant portion of their fuel requirements, such as GIAA, has benefitted substantially from the falling jet fuel price. Those that did, such as SIA, have hardly benefitted thus far, given the higher costs pressure from the stronger US$.

Average quarterly jet fuel spot price vs selected airlines' actual

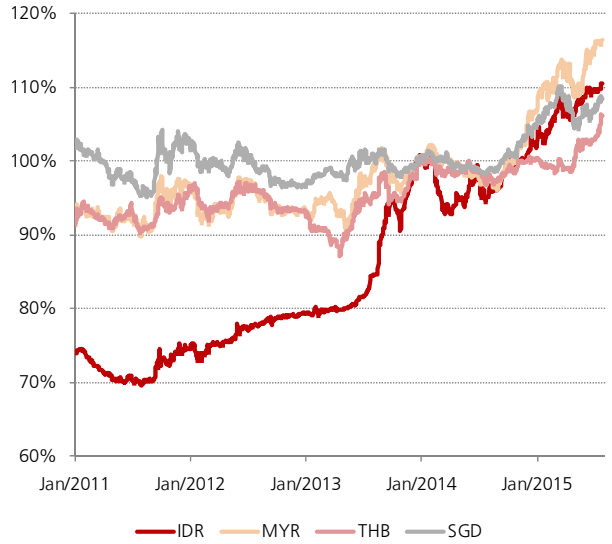


Source: DBS Bank

Forex Outlook and Impact

US$ has strengthened against regional currencies since mid-2014. Using 1 Jan 2014 as a benchmark, the US$ actually weakened against the regional currencies of SGD, MYR, IDR and THB (on a simple average weighted basis) by 3.5% by end-July 2014, before strongly reversing course to be down by over 10% 12 months on. Individually, since 1 Jan 2014, the US$ has strengthened against the Ringgit by 16.5%, the Rupiah by 10.6%, the Dollar by 8.3% and the Baht by 6.1%.

US$ vs ASEAN currencies (1 Jan 2014 = base)



Source: ThomsonReuters, DBS Bank

US$ is expected to continue strengthening. DBS's economics team expects US$ to continue strengthening against the ASEAN currencies, as illustrated by our economists' forecasts below. In some cases such as the MYR and THB, the US$ has already appreciated beyond the forecasted levels.

DBS Exchange Rate Forecasts

USD vs	2Q15	3Q15	4Q15	1Q16	2Q16
IDR	13306	13460	13660	13870	14080
MYR	3.75	3.74	3.76	3.78	3.80
SGD	1.35	1.36	1.38	1.40	1.42
THB	33.70	33.70	33.80	34.00	34.10

Source: DBS Bank

Substantial US$ costs is a risk in view of the US$ appreciation. ASEAN carriers typically generate a deficit in US$ due to the high proportion of costs that are denominated in US$. Examples of such costs are jet fuel, maintenance and repair, and aircraft rental. These expense items make up 44-85% of revenue, for the ASEAN airlines under our coverage. The actual percentage of US$ cost would be even higher, as there are other costs such as staff allowances and insurance, that may be denominated in US$.

Earnings sensitivity to changes in US$. Ceteris paribus, we estimate every 1% appreciation in US$ could drag operating earnings by 2.6-15.3%, for the ASEAN airlines under our coverage.

US$ costs % of revenue and Sensitivity of earnings to US$

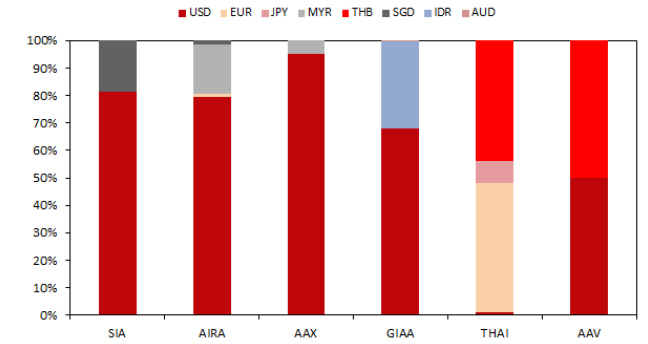
	US$ costs*	USD +1% on EBIT**
SIA*	44.2%	-6.5%
Tigerair**	65.3%	-9.9%
BA	42.5%	-3.3%
GIAA	74.0%	-15.3%
AIRA	48.0%	-2.6%
AAX	85.0%	n.a.
AAV	66.6%	-4.0%
THAI	53.4%	-6.8%

**Based on latest actual financial year*
***Estimate based on current financial year*
Source: DBS Bank

Currency exposure of ASEAN airlines' borrowings. AAX has the highest the exposure to US$ borrowings (as % of total borrowings), among the ASEAN airlines under our coverage. This is followed by AIRA and SIA. Other ASEAN airlines that have high exposure include GIAA and AAV. THAI has minimal exposure to US$ borrowings, but borrows half of its debts in EUR instead.

AIRA and AAX will be worst hit by stronger US$. While most of these airlines have high exposure to US$ borrowings, the growing strength in US$ will be exceptionally detrimental to the debt burdens of AIRA and AAX, as their home currency (i.e. MYR) is weakening at the same time. Concurrently, they have the highest exposure to US$ borrowings, among the ASEAN airlines under our coverage.

Borrowings breakdown by currency profile



Data for BA is not available
Sources: Bloomberg Finance L.P., DBS Bank, AllianceDBS

Valuations and Recommendations

Price Performance: Winners and losers in YTD15

A mix of winners and losers. Thai and Philippines airlines are the clear winners YTD, with Malaysian and Indonesian airlines being the biggest losers. The regional airlines had seen their share price rising phenomenally in 2H14, driven by the euphoria over falling crude prices; but their performances have started to diverge early this year, as investors begun to realise that not all airlines will reap the benefit of lower fuel prices. We were proven correct in warning investors late last year, that cheaper fuel in itself would not drive airlines' earnings, as competition and other factors could fritter away the fuel cost savings.

Weak home currencies and competition were common denominators behind the losers. Malaysian-listed airlines (i.e. AIRA and AAX) were the sector's worst performers, as they were hit by significant translation losses on USD borrowings, due to weaker MYR. Meanwhile, the expected fuel cost savings did not translate into higher profits, as intense competition forced them to pass on the cost savings to consumers, via cheaper airfares. GIAA was dragged by similar issues (i.e. weak home currency, intense competition); but its share price performed relatively better, as the market has started to price in these issues since 2013.

Thai airlines bolstered by the renewed tourism boom in the country; as most countries have since rescinded their travel warnings, which were issued after the nationwide implementation of martial law last year. As a result, tourist arrivals have resumed its growth trajectory (+24% y-o-y in 1H15) after the slump in 2014, helped by various tourism promotional measures (i.e. free visa for Chinese tourists, and visa extensions for tourists).

Airlines that benefitted from this theme were AAV (international network primarily serves ASEAN and China) and BA (dominant in Koh Samui, a key international tourist destination in Thailand). Despite the vibrant inbound tourism market, THAI's share price was capped by the ongoing restructuring efforts, due to concerns over the associated impairment and compensation costs as well as the risk of a dilutive equity fund raising, given its high gearing. Meanwhile, Nok Airlines is dogged by the intense competition in the Thai domestic market, which has become increasingly crowded, with the entry of Thai Lion Air.

Industry consolidation is the key theme in Philippines. The financial health of the Philippines airlines have started to recover early this year, with both Cebu Pacific and PAL Holdings reporting healthy profits in 1Q15. This was driven by the industry consolidation precipitated by the exit of two domestic airlines in 2014: Tigerair Philippines (bought over by Cebu Pacific) and Zest Airways (merged with AirAsia Philippines).

No unifying theme for the Singapore airlines. SIA's share price has fallen by 10% YTD, as bottomline was dragged by fuel hedging losses and lacklustre yields. Investors remain unconvinced that SIA will be able to regain pricing power for its premium products, given the regional economic weakness. This has dampened its earnings outlook, as two-thirds of its EBIT comes from the flagship premium airline. Meanwhile, Tigerair's share price has performed relatively well (+11% YTD), as it has significantly narrowed its losses after grounding some aircraft and exiting the Indonesian and Philippine market.

ASEAN Airlines Share Price Performance

	Local	Share Price	Share Price Performance				
Airlines	Currency	8 Aug 2015	1-month	3-month	6-month	Year-to-date	12-month
SIA	SGD	10.41	-4%	-12%	-15%	-10%	6%
Tigerair	SGD	0.295	-2%	-8%	-9%	11%	-11%
AIRA	MYR	1.34	0%	-40%	-51%	-51%	-44%
AAX	MYR	0.21	5%	-35%	-60%	-60%	-69%
GIAA	IDR	423.00	-3%	-24%	-21%	-24%	1%
THAI	THB	12.30	-6%	0%	-14%	-16%	-20%
AAV	THB	5.05	6%	7%	3%	17%	10%
BA	THB	21.50	-4%	11%	3%	10%	N/A
Nok Airlines	THB	9.10	-8%	-22%	-37%	-31%	-46%
Cebu Pacific Air	PHP	96.60	14%	15%	9%	13%	70%
PAL Holdings	PHP	4.60	-1%	-5%	-4%	-3%	-15%

Source: DBS Bank, Bloomberg Finance L.P.

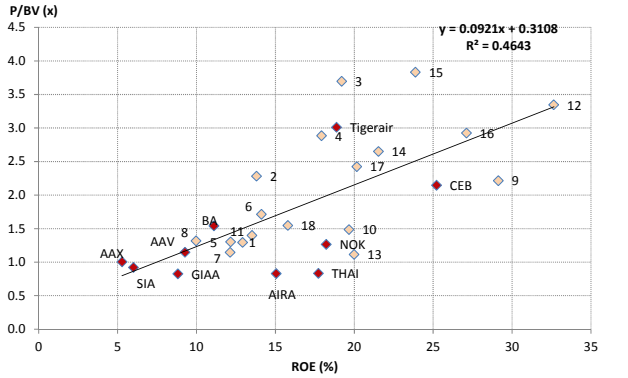
How are ASEAN airlines trading in relation to peers?

ASEAN airlines are generally trading below mean historical P/BV; with Bangkok Airways being the exception, as valuation was boosted by its stakes in various non-airline businesses. Not surprisingly, airlines that are dogged by currency and competition concerns (i.e. AIRA, AAX, GIAA) are the cheapest among the ASEAN airlines; generally trading at -2SD to mean P/BV. The rest of the ASEAN airlines are generally trading between -1SD and mean P/BV.

Bloomberg Asia Pacific Airlines Index is currently trading at +1SD to mean historical P/BV, mainly driven by the premium valuation of North Asian airlines. The latter has seen its share price surge since 2H14, owning to the cheaper fuel, less intense competition in the North Asian aviation market, and the recent H- and A-share rally. However, we think its current valuation has largely priced in the earnings prospects of the North Asian airlines, and their upside potential could be limited going forward.

In terms of P/BV vs ROE, ASEAN names are generally below or near the global trend line, with Tiger Airways as the exception. This suggests that the ASEAN-listed names offer decent value relative to global peers. Names that stand out include AIRA, THAI, Nok Air and Cebu Pacific, but AIRA and THAI's seemingly cheap valuations are driven by company-specific risks. AIRA may have to impair its investments in Indonesia and Philippines, while THAI is expected to book in impairments and other provisions as part of its restructuring. Meanwhile, Tigerair seems expensive as equity value had been eroded by the last round of impairments (in relation to their exit from Philippines and Indonesia).

ASEAN Airlines CY15F P/BV vs CY16F ROE



**Red dot denotes ASEAN airlines*

Names of the non-ASEAN airlines are listed below:

1. Cathay Pacific	7. Asian Airlines	13. Lufthansa
2. Air China	8. Virgin Australia	14. EasyJet
3. China Eastern	9. Qantas Airways	15.Ryanair Holdings
4. China Southern	10.Air New Zealand	16.Southwest
5. China Airlines	11. Air Arabia	17. JetBlue Airways
6. Eva Airways	12.IAG	18. Westjet Airlines

Sources: DBS Bank, Bloomberg Finance L.P., AllianceDBS

What Should Investors Do?

Our top pick for the sector is **AAV (BUY, TP: Bt6.30).** Given its international network which primarily serves Chinese and ASEAN destinations, we like the stock as a play on Thailand's vibrant inbound tourism market, and for its exposure to the secular growth in Chinese aviation traffic (Chinese tourists make up c.22% of its total passengers).We expect AAV to rerate to our target P/BV of 1.3x or +1SD to mean P/BV, with ROE expected to hit c.9% in FY15-17F (the highest since IPO),

Our other top picks include **BA (BUY, TP: Bt27.50)** and **GIAA (BUY, TP: IDR630).** Similar to AAV, we like BA as a play on the Thai inbound tourism boom, given its dominance over slots at Samui Airport, which serves Koh Samui – a popular tourist destination in Thailand. Meanwhile, we like GIAA for its cheap valuation to play on the secular growth in Indonesian air travel demand (rising middle class, archipelago geography).

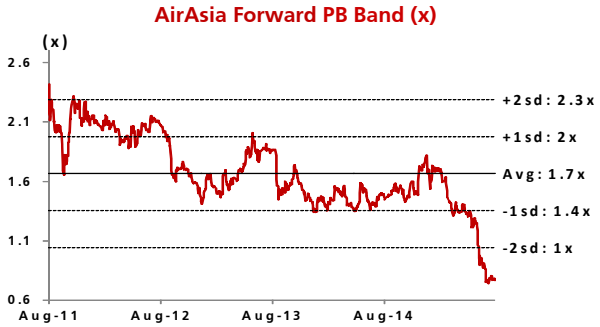
Regional Airlines' Valuations

Company	Country	Call	Target Price (LC)	Current Price (LC)	Market Cap (USD m)	EPS Growth		P/E (x)		P/BV (x)		ROE (%)		Dividend Yield (%)		Adjusted EV/ EBITDAR (x)	
						CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16
Singapore Airlines	Singapore	Buy	12.70	10.41	8,795	56	50	22.5	15.0	0.9	0.9	4.3	6.0	3.0	4.4	4.4	4.3
Tiger Airways Holdings	Singapore	Buy	0.42	0.30	532	-108	356	65.9	14.4	3.0	2.5	-15.3	18.9	0.0	0.0	9.1	7.1
AirAsia	Malaysia	Hold	1.55	1.34	950	50	16	6.0	5.2	0.8	0.7	0.6	15.0	3.5	4.1	7.7	7.3
AirAsia X Bhd	Malaysia	Hold	0.22	0.21	217	-80	127	-4.9	18.5	1.0	1.0	-32.0	5.3	0.0	0.0	8.7	6.3
Garuda Indonesia*	Indonesia	Buy	630.00	423.00	809	-118	19	10.6	8.9	0.8	0.8	8.1	8.8	0.0	0.0	6.4	6.1
Thai Airways	Thailand	Hold	12.35	12.30	764	-121	32	5.6	4.3	0.8	0.7	-24.4	17.7	0.0	0.0	7.7	6.7
Asia Aviation	Thailand	Buy	6.30	5.05	697	1,905	14	13.5	11.8	1.1	1.0	8.9	9.3	0.0	0.0	7.5	7.2
Bangkok Airways	Thailand	Buy	27.50	21.50	1,284	507	57	21.2	13.5	1.5	1.5	7.4	11.1	2.4	3.7	10.9	9.0
Nok Air*	Thailand	NR	NR	9.10	162	193	80	13.0	7.2	1.3	1.2	11.6	18.2	5.6	6.6	8.3	6.9
Cebu Air*	Philippines	NR	NR	96.60	1,279	738	8	8.2	7.6	2.1	1.7	29.0	25.2	2.1	2.2	6.4	6.2
ASEAN Airlines Average						**209**	**53**	**19.3**	**12.6**	**1.1**	**1.0**	**4.2**	**10.0**	**2.4**	**3.3**	**6.0**	**5.5**
Cathay Pacific*	Hong Kong	NR	NR	18.76	9,520	121	12	10.6	9.4	1.3	1.2	12.9	12.9	3.4	3.9	6.6	6.2
Air China*	China	NR	NR	11.41	20,607	135	13	15.7	13.8	2.3	2.0	14.7	13.8	1.0	1.0	8.2	7.6
China Eastern Air*	China	NR	NR	11.49	19,159	116	19	19.7	16.5	3.7	3.1	20.9	19.2	0.5	0.6	9.6	8.9
China Southern Air*	China	NR	NR	12.35	16,810	322	15	16.3	14.1	2.9	2.5	18.6	17.9	1.4	1.5	8.2	7.5
China Airlines*	Taiwan	NR	NR	14.35	2,435	1,297	-2	8.6	8.7	1.3	1.2	15.5	12.2	1.8	0.6	N/A	N/A
Eva Airways*	Taiwan	NR	NR	22.70	2,768	672	-7	9.9	10.6	1.7	1.5	19.5	14.1	0.6	0.4	N/A	N/A
Asian Airlines*	South Korea	NR	NR	6370.00	1,066	164	-3	7.7	7.9	1.1	1.0	13.9	12.1	0.0	0.0	N/A	N/A
Qantas Airways*	Australia	NR	NR	3.77	6,129	715	7	10.1	9.4	2.2	1.8	27.5	29.1	0.0	0.8	4.6	4.0
Air New Zealand*	New Zealanc	NR	NR	2.68	1,981	71	4	7.4	7.1	1.5	1.3	20.7	19.7	6.1	6.1	4.2	4.1
Asia Pacific Airlines Average						**264**	**13**	**15.0**	**13.2**	**2.5**	**2.2**	**18.1**	**17.1**	**1.3**	**1.4**	**7.9**	**7.3**
EasyJet Plc*	UK	NR	NR	1705.00	10,482	14	8	12.4	11.5	2.7	2.4	21.8	21.5	3.4	3.8	7.8	7.1
Ryanair Holdings*	Ireland	NR	NR	12.77	18,950	28	15	17.1	14.9	3.8	3.2	23.5	23.9	0.2	1.1	10.6	8.7
IAG*	U. Kingdom	NR	NR	548.50	17,253	73	19	10.9	9.2	3.3	2.5	36.1	32.6	2.3	2.8	5.1	4.7
Air France-KLM*	France	NR	NR	6.45	2,122	71	270	N/A	7.3	N/A	N/A	13.9	40.3	0.0	0.1	4.8	4.2
Lufthansa*	Germany	NR	NR	12.16	6,165	97	9	6.0	5.5	1.1	0.9	24.7	20.0	3.4	4.6	3.0	2.6
European Airlines Average						**49**	**24**	**12.9**	**11.1**	**3.1**	**2.5**	**26.9**	**26.4**	**1.8**	**2.5**	**7.3**	**6.3**

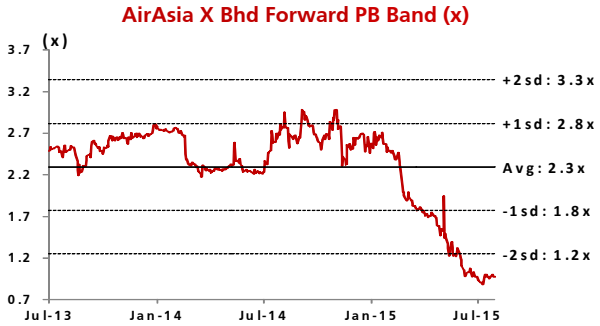
** Estimates based on Bloomberg consensus*

Source: Bloomberg Finance L.P., DBS Bank;, DBS Vickers, AllianceDBS

Valuation Charts: P/B

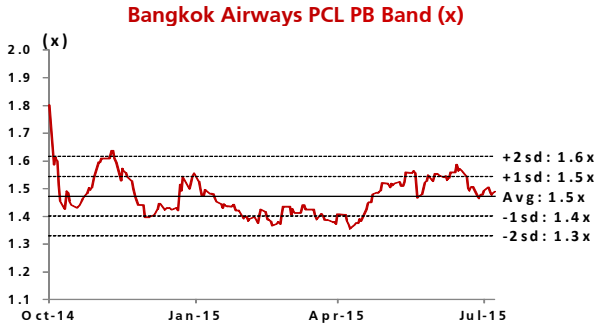


AirAsia. AIRA has been on a downtrend over the past three years. It first fell to 1.4x P/BV in late 2013, due to persistent yield compression on rival airlines' aggressive pricing. It subsequently recovered to 1.7x P/BV in 2H14, driven by the euphoria over cheaper fuel, but this did not last. The stock is now trading at 0.8x P/BV, fuelled by earnings disappointments, allegations of creative accounting, and concerns over the sustainability of its Indonesian and Philippine operations. Our RM1.55 TP is derived from SOP valuation, and implies 0.8x FY16F P/BV.



AirAsia X. AAX has never traded above its IPO price, since its listing in Jul 2013. Its valuation has steadily de-rated from the peak of 2.8x P/BV to 1.0 P/BV, on growing losses amid deteriorating yields. Our RM0.22 TP is based on 1.0x FY16F P/BV.

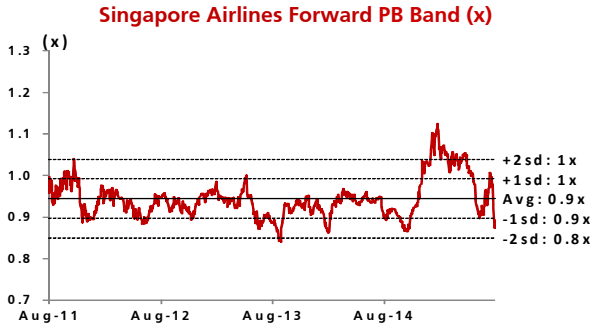
Asia Aviation. AAV has steadily de-rated from 1.9x P/BV to 0.9x P/BV in 2013-14, in tandem with its falling yields, which first became apparent in 2Q13. The stock is currently trading at 1.1x P/BV, which is below its mean historical P/BV. We think this is unjustified, given the rosy near-term earnings prospects. Our Bt6.30 is based on 1.3x FY16F P/BV.



Bangkok Airways. BA has been trading since it listing in Oct 2014 at an average of 1.5x forward P/BV. In the case of Bangkok Airways, P/BV is not an ideal valuation methodology as it also owns stakes in Bangkok Dusit Medical Hospital and Samui Airport Property fund, both of which are listed. Our TP of BT27.50 for BA is based on a 10% discount to its sum-of-parts valuation.

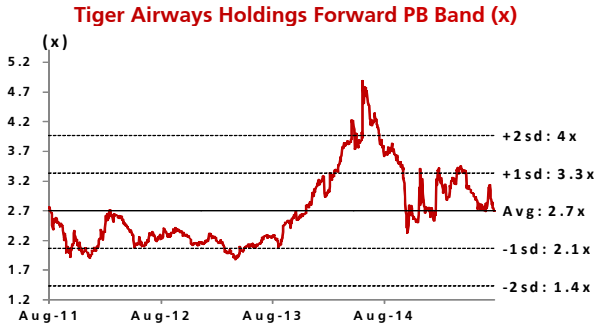
Source: Company;DBS Bank, AllianceDBS

Garuda Indonesia. GIAA's share price has traded at between 0.8x P/BV to 1.3x forward P/BV over the last two years, and is currently near a 3-year low at 0.8x FY15 P/BV. This is slightly below the -1SD level of 1x and contrasts against the mean of 1.2x P/BV. We believe Garuda Indonesia's share price should rerate towards our 12-month target price of Rp630, which is based on 1.2x FY15 P/BV, at the mean of 1.2x P/BV, as its earnings continue to rebound.



Singapore Airlines. SIA has traded from a low of 0.7x P/BV (global financial crisis and SARS) to a high of 1.4x P/BV (when group earnings reached S$1.1bn or 9.4% ROE), and mostly in tandem with the Group's profitability and earnings outlook. Over the last seven years, SIA has traded at an average of 1.1x P/BV but has been trading at a lower level in recent years due to weak earnings. Our target price of S$12.70 is based on its longer-term mean P/BV of 1.1x.

Thai Airways. THAI had previously traded to a peak of 1.5x P/BV in 2013, driven by rising passenger yields amid a surge in tourist arrivals in 2H12-2013 (monthly growth averaged 23% y-o-y in this period). However, valuation subsequently de-rated on faltering travel demand, because tourist arrivals were affected by the Thai political crisis in 2013-14. Our Bt12.35 TP is based on 0.7x FY16F P/BV.



Tiger Airways. Tigerair is currently trading at its 4-year average forward P/BV of 2.7x , we believe that the stock can go higher as it is in an early stage of earnings recovery. Our target price of S$0.42 is based on 8x FY16 EV/EBITDA, and implies 3.5x FY16F P/BV.

Source: Company;DBS Bank, AllianceDBS, DBS Vickers

APPENDIX

Designated Airlines under ASEAN Open Skies

Country	MAFLAFS	MAAS	MAFLPAS
Brunei		RB	RB
Cambodia		CAA SKA	
Indonesia		GIA MNA LMA BAI WA SJ SA TAS TEAS IAA MA KA CI	
Laos			
Malaysia	MAS Cargo TSE	MAS FFM MWG AXM XAX BVT MLD	MAS FFM MWG AXM XAX BVT MLD
Myanmar	GMA MAI AWA MYA	GMA MAI AWA MYA	GMA MAI AWA MYA
Philippines	PAL	PAL	PAL Air Asia CEB GAP ZST SSA
Singapore	Scoot Jett8 JSA SLK TGW SIA SIA Cargo	Scoot Jett8 JSA SLK SIA SIA Cargo TGW	JSA SLK SIA SIA Cargo TGW VLU
Thailand		THA BKP	
Vietnam	HVN PIC Vietjet	HVN PIC Vietjet	HVN PIC Vietjet

Source: Association of Southeast Asian Nations (ASEAN)

Airlines Abbreviations and Designated Countries
Air Asia: Air Asia Inc. (Philippines)
AWA: Asian Wings Airways (Myanmar)
AXM: Air Asia Berhad (Malaysia)
BAI: PT Batik Air Indonesia (Indonesia)
BKP: Bangkok Airways Company Limited (Thailand)
BVT: Berjaya Air Sdn. Bhd (Malaysia)
CAA: Cambodia Angkor Air (Cambodia)
CEB: Cebu Pacific Air (Philippines)
CI: PT Citilink Indonesia (Indonesia)
FFM: FlyFirefly Sdn. Bhd (Malaysia)
GAP: Air Philippines Corporation (Philippine)
GIA: PT Garuda Indonesia Persero (Indonesia)
GMA: Golden Myanmar Airlines (Myanmar)
HVN: Vietnam Airlines Company Limited (Viet Nam)
IAA: PT Indonesia Air Asia (Indonesia)
Jett8: Jett8 Airlines Pte. Ltd (Singapore)
JSA: Jetstar Asia Airways Pte. Ltd (Singapore)
KA: PT Kalstar Aviation (Indonesia)
LMA: PT Lion Mentari Airlines (Indonesia)
MA: PT Mandala Airlines (Indonesia)
MAI: Myanmar Airways International (Myanmar)
MAS Cargo: Malaysia Airlines Cargo Sdn. Bhd. (Malaysia)
MAS: Malaysia Airlines System Berhad (Malaysia)
MLD: Malindo Air (Malaysia)
MNA: PT Merpati Nusantara Airlines (Indonesia)
MWG: MASWings Sdn. Bhd (Malaysia)
MYA: Myanmar National Airlines
PAL: Philippine Airline Inc. (Philippines)
PIC: Jetstar Pacific Airlines Aviation (Viet Nam)
RB: Royal Brunei Airlines (Brunei Darussalam)
SA: PT Sky Aviation (Indonesia)
SAA: Southeast Asia Airlines (Philippines)
Scoot: Scoot Private Limited (Singapore)
SIA Cargo: Singapore Airlines Cargo Pte Ltd (Singapore)
SIA: Singapore Airlines Limited (Singapore)
SJ: PT Sriwijaya Air Service (Indonesia)
SKA: Skywings Asia Airlines (Cambodia)
SLK: SilkAir (Singapore) Pte. Ltd (Singapore)
TAS: PT Trigana Air Service (Indonesia)
TEAS: PT Travel Express Aviation Services (Indonesia)
TGW: Tiger Airways Singapore Pte Ltd (Singapore)
THA: Thai Airways International Public Company Limited (Thailand)
TSE: Transmile Sdn. Bhd (Malaysia)
Vietjet: Vietjet Aviation (Viet Nam)
VLU: Valuair Limited (Singapore)
WA: PT Wings Abadi (Indonesia)
XAX: Air Asia X Sdn. Bhd (Malaysia)
ZST: ZEST Airways (Philippines)

Company Guides

Malaysia Company Guide
AirAsia

Edition 1 Version 1 | Bloomberg: AIRA MK | Reuters: AIRA.KL

Refer to important disclosures at the end of this report

HOLD

Last Traded Price: RM1.34 **(KLCI :** 1,682.65**)**
Price Target : 12-Month RM 1.55 (16% upside)

Potential Catalyst: Recovery in yields, stronger MYR, timely progress of associates' fund-raising plans
Where we differ: We are concerned about the potential recoverability of the amounts due from IAA and PAA, and the impact of a stronger USD on the group's operational cost and debt burden.

Analyst
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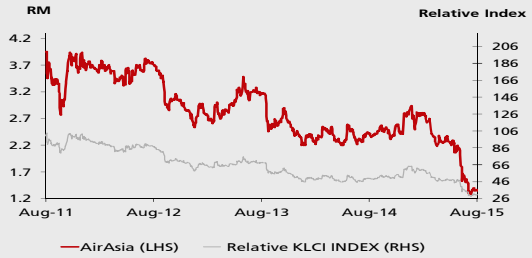
Price Relative



Forecasts and Valuation

FY Dec (RM m)	2014A	2015F	2016F	2017F
Revenue	5,416	5,434	5,700	5,845
EBITDA	1,573	1,844	1,973	2,093
Pre-tax Profit	23	63	763	910
Net Profit	83	27	721	861
Net Pft (Pre Ex.)	416	624	721	861
EPS (sen)	14.9	22.4	25.9	30.9
EPS Pre Ex. (sen)	14.9	22.4	25.9	30.9
EPS Gth (%)	(29)	50	16	19
EPS Gth Pre Ex (%)	(29)	50	16	19
Diluted EPS (sen)	3.0	1.0	25.9	30.9
Net DPS (sen)	3.0	4.7	5.5	6.5
BV Per Share (sen)	163.7	161.6	182.8	208.2
PE (X)	9.0	6.0	5.2	4.3
PE Pre Ex. (X)	9.0	6.0	5.2	4.3
P/Cash Flow (X)	12.3	3.7	2.7	2.5
EV/EBITDA (X)	9.4	7.9	7.1	6.0
Net Div Yield (%)	2.2	3.5	4.1	4.9
P/Book Value (X)	0.8	0.8	0.7	0.6
Net Debt/Equity (X)	2.4	2.4	2.0	1.5
ROAE (%)	1.7	0.6	15.0	15.8
Earnings Rev (%):		-	-	-
Consensus EPS (sen):		22.4	25.7	30.2
Other Broker Recs:		B: 18	S: 1	H: 6

Source of all data: Company, AllianceDBS, Bloomberg Finance L.P

TROUBLES AT THE PERIPHERIES

Maintain HOLD. Despite the 16% implied upside to our TP, we would wait for clarity on the much-touted fund-raising exercise for IAA and PAA. Failure to attract pre-IPO investors to IAA and PAA, would mean AirAsia has to carry the burden of funding these units, which would stretch its balance sheet and potentially lead to a dilutive rights issue. Also, the Indonesian authorities have asked IAA to remedy its negative equity position, which is dependent on the pre-IPO funding exercise.

Concern over funding plans. IAA and PAA plan to increase their share capital to USD100m (from USD14m) and raise at least USD100m from the sale of convertible bonds each. In total, USD294m cash would be raised, which will mostly be used to repay AirAsia. While the management thinks otherwise, we believe implementation of the funding plan will not be easy amid a challenging industry outlook and volatile equity market. This would a key concern for us, as the funding exercise is critical for IAA to remedy its negative equity position. Failure to do so by end-Jul 2015 will lead to a review for all new route applications, and IAA would also have to come out with a business plan to remedy the situation.

Impairment risk. At end 1Q15, amount due from associates was RM2.8bn on AirAsia's balance sheet, of which RM2.4bn was classified as non-current. AirAsia plans to recover c.RM1bn after IAA and PAA complete their fund-raising exercise. But, we are wary of a possible impairment charge if the fund-raising exercise fails. Net gearing could spike to 4.4x in FY15F, assuming RM2.0bn impairment charge.

Valuation:

Valuation clouded by IAA and transparency issues. Our RM1.55 TP is derived by applying 50% discount to our SOP valuation, to reflect the operating challenges for IAA and transparency issues surrounding its accounting policies.

Key Risks to Our View:

High foreign shareholdings. Foreign shareholdings is 54% currently. If the investment climate continues to deteriorate, it could trigger a sell-down of the stock by the foreign investors.

At A Glance

Issued Capital (m shrs)	2,783
Mkt. Cap (RMm/US$m)	3,729 / 950
Major Shareholders	
TuneAir (%)	19.0
Wellington Management LLP (%)	14.0
Employees Provident Fund (%)	8.6
Free Float (%)	58.4
3m Avg. Daily Val (US$m)	9.2

ICB Industry : Consumer Services / Travel & Leisure

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Reactivating grounded aircraft in Malaysia. Net of disposals and deferrals, AirAsia expects to grow its fleet by 2/8/2 aircraft in FY15/16/17, of which we expect 1/2 aircraft to be allocated for the Malaysian operations in 2015/16. However, we forecast AirAsia will grow ASK by 7% in FY15F as management plans to reactivate some grounded aircraft. We expect ASK growth to match the Malaysian fleet growth of 2%/1% p.a. in FY16/17F.

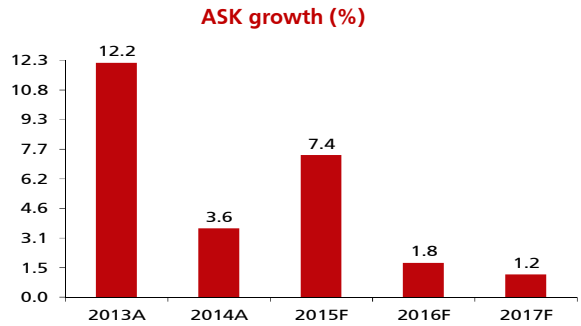
Load factors should recover in 2H. AirAsia's passenger load factor fell by 5ppts y-o-y to 75% in 1Q15, due to a halt in marketing activities following the QZ8501 accident. However, we expect this to improve in the 2H, premised on seasonally stronger demand and MAB's capacity cuts. Our forecasts assume AirAsia will report 78% load factor for FY15F, with a 1ppt increase y-o-y each in FY16/17F given the modest capacity growth.

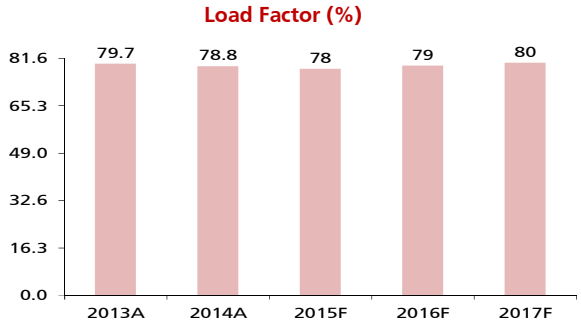
But yields will likely remain weak for the rest of the year. Passenger yields (i.e. fare/RPK) fell by 10% y-o-y in 1Q15 as AirAsia halted marketing activity and removed fuel surcharge. While we expect stronger demand in the 2H, fares will remain lackluster, and we project yields will drop 9% y-o-y in FY15F in the absence of the fuel surcharge. But, we forecast yield will recover by 2% y-o-y in FY16F following MAB's capacity cuts.

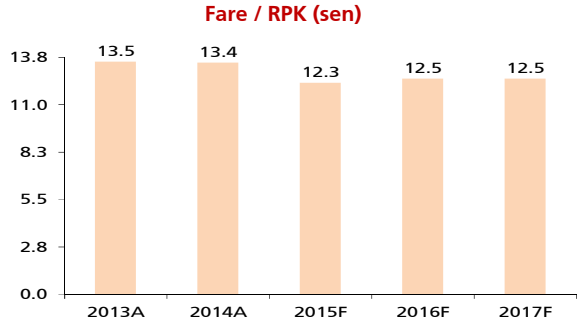
Forecast ancillary income to be flat. AirAsia has in the pipeline several initiatives to boost ancillary income (onboard WIFI, enhanced duty-free operation, new purchasing system, etc). But, we conservatively assumed ancillary income/pax would be flat in FY15-17F because there were no signs of an uptick in 1Q15 despite launching the duty-free business and WIFI onboard in 2H14.

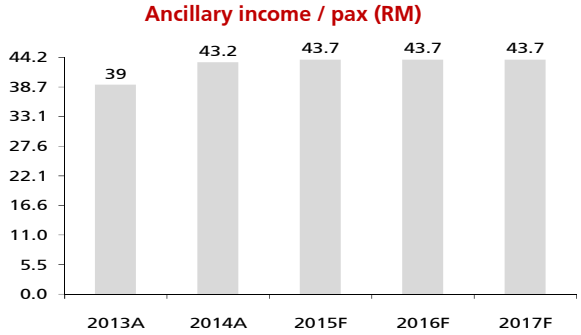
Lower unit costs as a result of cheaper fuel. We expect AirAsia's cost/ASK to drop by 10% y-o-y in FY15F as a result of cheaper fuel. We estimate fuel cost savings at 1.2 sen/ASK in FY15F (18% savings), after adjusting for the group's hedging policy and a weaker MYR. We forecast cost/ASK will increase by 3%/1% in FY16/17F, premised on a weaker MYR.

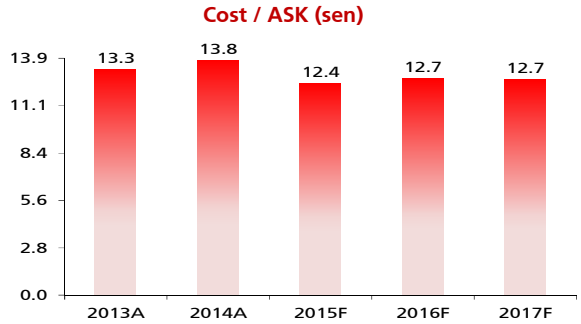
TAA a key earnings driver in FY15F. We project share of associate & JV earnings will grow by 322%/8%/1% in FY15/16/17F. The strong growth in FY15F will be driven by Thai AirAsia (TAA), which has been benefitting from the recovering tourism activities following the lifting of the military curfew in Jun 2014. Thailand tourist arrivals rose by an encouraging 20% y-o-y in 5M15.











Source: Company, AllianceDBS

Balance Sheet:

Gearing expected to peak in FY15F, but there is risk. Our base case assumes AirAsia's net gearing will peak at 2.5x in FY15F, before falling to 2.1x/1.6x in FY16/17F. But this is premised on the ability of IAA and PAA to finance their own operations (i.e. pre-IPO fund-raising is completed, and they will turnaround in the near-term). If not, AirAsia will be forced to bank-roll these units, which would stretch its gearing. At worst, net gearing could spike to 4.4x in FY15F if the group has to book RM2.0bn impairment charge for the amounts due from associates.

Share Price Drivers:

Timely progress of pre-IPO funding exercise for IAA and PAA. The pre-IPO funding exercise is critical to remedy IAA's negative equity position, in order to comply with the Indonesian authorities' request. Also, the successful completion of the funding exercise for both IAA and PAA would allow AirAsia to recover RM1bn of the amount due from these units. This would temporarily ease investors' concerns over the recoverability of these amounts. But, these associates would ultimately have to turn profitable, or the continuing losses will eventually drag the group down.

Profit outlook for core Malaysian operations. Malaysia AirAsia (MAA) is the flagship operation, contributing 93% of AirAsia's FY14 core net profit. We estimate MAA's flight operations (i.e. excluding aircraft leasing) contributed 62% of AirAsia's core PBT in FY14, and it will remain a key earnings contributor in FY15-17F (52-55%). As such, with MAA's flight operations being dogged by intense price wars in FY13-14, a significant relief in Malaysia's competitive aviation landscape (i.e. capacity cuts, more rational pricing) could be a significant re-rating catalyst for the stock.

Key Risks:

USD could appeciate against MYR. A stronger USD will pressure AirAsia's profitability as 57% of its cost base is in USD. Debt repayments will also be a concern as 79% of its borrowings are in USD currently.

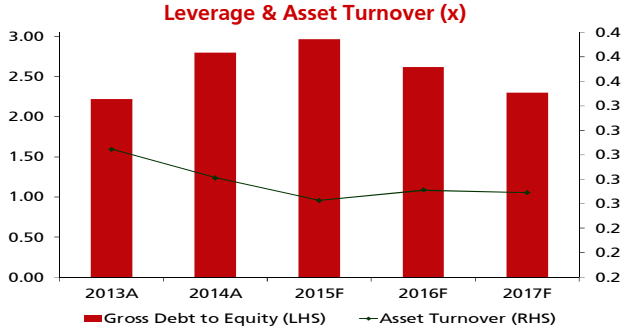
Irrational competition. Irrational competition could persist if MAB decides to change strategy and focus again on gaining market share. If this happens, AirAsia would experience yield compression.

High foreign shareholdings. Foreign shareholdings is 54% currently. If the investment climate continues to deteriorate, it could trigger a sell-down of the stock by foreign investors.

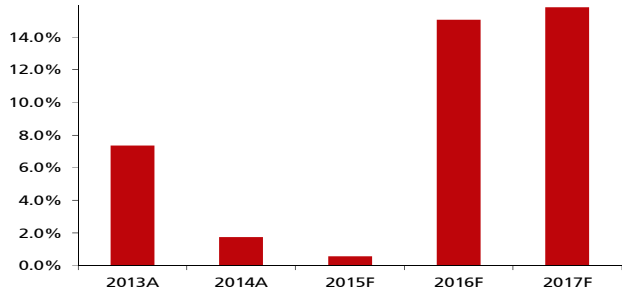
COMPANY BACKGROUND

AirAsia is a low-cost airline that operates short-haul, point-to-point domestic and international routes. The group has hubs in Malaysia, Thailand, Indonesia and the Philippines.

Leverage & Asset Turnover (x)



ROE (%)



SOP valuation

Segment	Stake	Value (RM m)	Per share (RM)
Malaysian AirAsia	100.0%	6,221	2.24
- Airline operations	*100.0%*	*1,810*	*0.65*
- Aircraft leasing business	*100.0%*	*1,905*	*0.68*
- Net amount due from associates	*100.0%*	*2,506*	*0.90*
Thai AirAsia	45.0%	1,623	0.58
Indonesia AirAsia	48.9%	26	0.01
AirAsia Philippines	40.0%	76	0.03
AirAsia India	40.0%	47	0.02
AirAsia X	13.8%	126	0.05
Tune Ins	13.7%	159	0.06
AAE Travel	25.0%	318	0.11
Asia Aviation Centre of Excellence	50.0%	103	0.04
Sums-Of-Parts Value		**8,698.2**	**3.13**
Less: 50% SOP discount		(4,349.1)	(1.56)
Target Equity Value		**4,349.1**	**1.55**

Forward PE Band (x)

PB Band (x)

Source: Company, AllianceDBS

Key Assumptions

FY Dec	2013A	2014A	2015F	2016F	2017F
ASK growth (%)	12.2	3.6	7.4	1.8	1.2
Load Factor (%)	79.7	78.8	78.0	79.0	80.0
Fare / RPK (sen)	13.5	13.4	12.3	12.5	12.5
Ancillary income / pax	39.0	43.2	43.7	43.7	43.7
Cost / ASK (sen)	13.3	13.8	12.4	12.7	12.7

Fares/RPK expected to drop with removal of fuel surcharge

Segmental Breakdown

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenues (RM m)					
MAA - Airline Operations	4,446	4,623	4,587	4,805	4,925
MAA - Aircraft leasing	666	793	847	895	920
Associates and JV	0	0	0	0	0
Total	**5,112**	**5,416**	**5,434**	**5,700**	**5,845**
Core PBT (RM m)					
MAA - Airline Operations	416	262	354	428	557
MAA - Aircraft leasing	131	152	191	210	226
Associates and JV	55	28	116	126	127
Total	**602**	**441**	**661**	**763**	**910**
Core PBT Margins (%)					
MAA - Airline Operations	9.3	5.7	7.7	8.9	11.3
MAA - Aircraft leasing	19.7	19.2	22.5	23.4	24.6
Associates and JV	N/A	N/A	N/A	N/A	N/A
Total	**11.8**	**8.2**	**12.2**	**13.4**	**15.6**

Income Statement (RM m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	5,112	5,416	5,434	5,700	5,845
Other Opng (Exp)/Inc	(4,249)	(4,590)	(4,430)	(4,617)	(4,646)
Operating Profit	**863**	**826**	**1,005**	**1,083**	**1,198**
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	55	28	116	126	127
Net Interest (Exp)/Inc	(316)	(412)	(460)	(446)	(415)
Exceptional Gain/(Loss)	(241)	(419)	(597)	0	0
Pre-tax Profit	**361**	**23**	**63**	**763**	**910**
Tax	1	60	(37)	(42)	(50)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	**362**	**83**	**27**	**721**	**861**
Net Profit before Except.	583	416	624	721	861
EBITDA	1,515	1,573	1,844	1,973	2,093
Growth					
Revenue Gth (%)	3.4	5.9	0.3	4.9	2.5
EBITDA Gth (%)	(4.9)	3.8	17.2	7.0	6.1
Opg Profit Gth (%)	(16.1)	(4.3)	21.6	7.8	10.6
Net Profit Gth (Pre-ex) (%)	(17.8)	(28.7)	50.0	15.6	19.3
Margins & Ratio					
Opg Profit Margin (%)	16.9	15.3	18.5	19.0	20.5
Net Profit Margin (%)	7.1	1.5	0.5	12.7	14.7
ROAE (%)	7.3	1.7	0.6	15.0	15.8
ROA (%)	2.2	0.4	0.1	3.4	4.0
ROCE (%)	5.6	4.7	2.2	5.2	5.6
Div Payout Ratio (%)	30.7	100.8	496.6	21.2	21.2
Net Interest Cover (x)	2.7	2.0	2.2	2.4	2.9

Unrealised forex translation losses on borrowings because of weaker MYR against USD

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RM m)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	1,302	1,311	1,317	1,478	1,297
Other Oper. (Exp)/Inc	(1,095)	(1,170)	(1,117)	(1,265)	(1,061)
Operating Profit	**208**	**141**	**200**	**213**	**236**
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	16	(9)	27	13	37
Net Interest (Exp)/Inc	(97)	(103)	(98)	(116)	(112)
Exceptional Gain/(Loss)	7	226	(103)	(502)	32
Pre-tax Profit	**134**	**255**	**26**	**(392)**	**193**
Tax	6	112	(21)	(37)	(44)
Minority Interest	0	0	0	0	0
Net Profit	**140**	**367**	**5**	**(429)**	**149**
Net profit bef Except.	124	26	119	101	153
EBITDA	388	322	407	411	459
Growth					
Revenue Gth (%)	2.0	0.7	0.5	12.2	(12.3)
EBITDA Gth (%)	19.0	(16.9)	26.4	0.9	11.7
Opg Profit Gth (%)	14.9	(32.1)	42.2	6.3	10.9
Net Profit Gth (Pre-ex) (%)	7.2	(79.2)	363.3	(14.9)	51.2
Margins					
Opg Profit Margins (%)	15.9	10.7	15.2	14.4	18.2
Net Profit Margins (%)	10.7	28.0	0.4	(29.0)	11.5

Sequential decline because of weaker passenger traffic

Balance Sheet (RM m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	11,935	13,034	12,207	12,252	11,380
Invts in Associates & JVs	954	422	347	472	599
Other LT Assets	2,044	4,675	4,729	4,729	4,729
Cash & ST Invts	1,384	1,624	2,512	2,947	4,397
Inventory	30	18	18	18	18
Debtors	1,510	891	894	938	962
Other Current Assets	0	0	0	0	0
Total Assets	**17,856**	**20,664**	**20,707**	**21,356**	**22,084**
ST Debt	1,119	2,275	2,275	2,275	2,275
Creditor	761	853	826	861	868
Other Current Liab	692	984	514	539	552
LT Debt	9,970	10,453	11,050	11,050	11,050
Other LT Liabilities	313	1,544	1,544	1,544	1,544
Shareholder's Equity	5,001	4,555	4,498	5,087	5,795
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	**17,856**	**20,664**	**20,707**	**21,356**	**22,084**
Non-Cash Wkg. Capital	87	(928)	(428)	(444)	(440)
Net Cash/(Debt)	(9,706)	(11,104)	(10,813)	(10,378)	(8,929)
Debtors Turn (avg days)	94.6	80.9	60.0	58.7	59.3
Creditors Turn (avg days)	(439.8)	(409.3)	(423.9)	(402.8)	(411.1)
Inventory Turn (avg days)	(16.3)	(12.1)	(9.2)	(8.7)	(8.6)
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3
Current Ratio (x)	1.1	0.6	0.9	1.1	1.5
Quick Ratio (x)	1.1	0.6	0.9	1.1	1.5
Net Debt/Equity (X)	1.9	2.4	2.4	2.0	1.5
Net Debt/Equity ex MI (X)	1.9	2.4	2.4	2.0	1.5
Capex to Debt (%)	20.3	14.3	(0.8)	6.1	(0.8)
Z-Score (X)	0.9	0.6	0.8	0.8	1.0

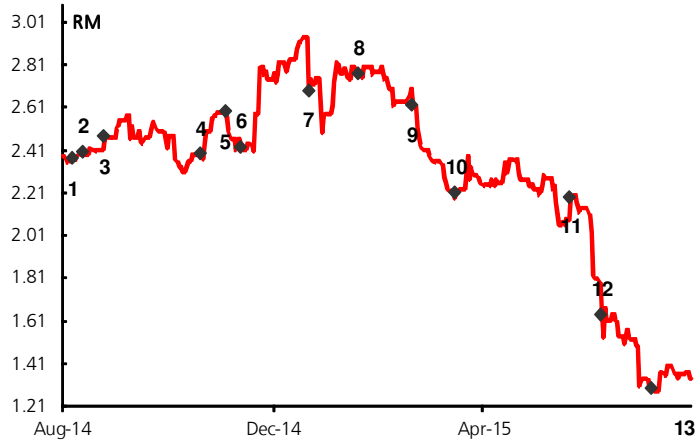
Source: Company, AllianceDBS

Cash Flow Statement (RM m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	361	23	63	763	910
Dep. & Amort.	597	719	723	764	768
Tax Paid	(29)	(15)	(37)	(42)	(50)
Assoc. & JV Inc/(loss)	(55)	(28)	(116)	(126)	(127)
Chg in Wkg.Cap.	(108)	(871)	(214)	16	(3)
Other Operating CF	276	511	597	0	0
Net Operating CF	**961**	**302**	**1,016**	**1,376**	**1,498**
Capital Exp.(net)	(2,254)	(1,823)	104	(809)	104
Other Invts.(net)	0	49	(54)	0	0
Invts in Assoc. & JV	(93)	(381)	192	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	0	0	0
Net Investing CF	**(2,346)**	**(2,154)**	**242**	**(809)**	**104**
Div Paid	(667)	(111)	(83)	(132)	(153)
Chg in Gross Debt	1,175	1,888	0	0	0
Capital Issues	1	2	0	0	0
Other Financing CF	0	0	0	0	0
Net Financing CF	**509**	**1,779**	**(83)**	**(132)**	**(153)**
Currency Adjustments	24	30	0	0	0
Chg in Cash	(852)	(43)	1,175	435	1,449
Opg CFPS (sen)	38.4	42.2	44.2	48.9	54.0
Free CFPS (sen)	(46.5)	(54.6)	40.2	20.4	57.6

Source: Company, AllianceDBS

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date	Closing Price	Target Price	Rating
1:	15 Aug 14	2.37	3.20	Buy
2:	21 Aug 14	2.40	3.20	Buy
3:	02 Sep 14	2.47	3.20	Buy
4:	28 Oct 14	2.39	3.20	Buy
5:	11 Nov 14	2.59	3.20	Buy
6:	20 Nov 14	2.42	3.20	Buy
7:	29 Dec 14	2.69	2.80	Hold
8:	27 Jan 15	2.77	2.80	Hold
9:	27 Feb 15	2.62	2.60	Hold
10:	24 Mar 15	2.21	2.60	Buy
11:	29 May 15	2.19	2.30	Hold
12:	16 Jun 15	1.64	1.80	Hold
13:	15 Jul 15	1.29	1.55	Hold

Source: AllianceDBS

Malaysia Company Guide

AirAsia X

Edition 1 Version 1 | Bloomberg: AAX MK | Reuters: AIRX.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Aug 2015

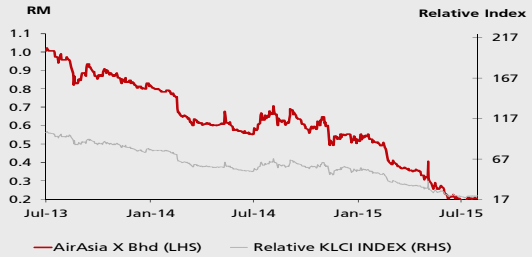
HOLD

Last Traded Price: RM0.21 **(KLCI :** 1,682.65**)**
Price Target : 12-Month RM 0.22 (5% upside)

Potential Catalyst: Recovery in passenger yields, MAB's restructuring
Where we differ: We value the stock at 1x P/BV because there is no reason why a company that consistently fails to deliver a profit should trade at a premium to book value.

Analyst
TAN Kee Hoong +603 2604 3913 keehoong@alliancedbs.com

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2014A	2015F	2016F	2017F
Revenue	2,937	3,393	3,888	4,221
EBITDA	(153)	34	233	320
Pre-tax Profit	(605)	(247)	48	140
Net Profit	(519)	(248)	46	139
Net Pft (Pre Ex.)	(487)	(172)	46	139
EPS (sen)	(21.9)	(6.0)	1.1	3.3
EPS Pre Ex. (sen)	(20.5)	(4.1)	1.1	3.3
EPS Gth (%)	(488)	73	nm	202
EPS Gth Pre Ex (%)	(4,500)	80	nm	202
Diluted EPS (sen)	(21.9)	(6.0)	1.1	3.3
Net DPS (sen)	0.0	0.0	0.0	0.0
BV Per Share (sen)	29.7	20.4	21.5	24.9
PE (X)	nm	nm	18.5	6.1
PE Pre Ex. (X)	nm	nm	18.5	6.1
P/Cash Flow (X)	nm	11.5	2.9	2.4
EV/EBITDA (X)	nm	42.4	5.1	2.7
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.7	1.0	1.0	0.8
Net Debt/Equity (X)	2.1	0.7	0.4	0.0
ROAE (%)	(53.6)	(32.0)	5.3	14.4
Earnings Rev (%):		-	-	-
Consensus EPS (sen):		(4.0)	1.3	2.9
Other Broker Recs:		B: 5	S: 3	H: 5

Source of all data: Company, AllianceDBS, Bloomberg Finance L.P

DEPRESSURISED AUSSIE AIRSPACE

Negative expectations priced in. We rate AirAsia X (AAX) as HOLD with RM0.22 TP. We believe there is limited downside to the stock price as the stock is trading at below 1x FY16 P/BV, amid MAB's capacity cuts which should ease the competitive pressure on KL-Australian routes. Also, solvency concerns is much less of a risk following the recently completed rights issue.

Rationality could return to Australia segment. Malaysia Airlines (MAB) is set to axe its Brisbane route and reduce the frequency of other Australian routes starting August. We estimate this would reduce MAB's seat capacity by 42% in the KL-Australia segment (vs early 2015), and total seat capacity (MAB, AAX, Emirates) by 19%, based on CAPA data. This could lead to a more benign competitive environment and help yields to recover in the important KL-Australia segment which accounts for 34% of AAX's total ASK.

Turnaround could happen in 4Q15; book a profit in FY16. Premised on the aforementioned capacity cuts in the KL-Australia segment, we forecast AAX's yields (fare/RPK) will recover by 3%/5% in FY15/16F. Meanwhile, we expect cost/ASK to be flat despite the recent drop in fuel price, as the fuel cost savings will likely be fettered away by the weaker MYR. Our projections suggest AAX could turnaround in 4Q15, with the group expected to report a profit in FY16F.

Valuation:

Limited downside. Our RM0.22 TP is based on 1x FY16F P/BV. The stock should not trade above book value until there is a sustainable turnaround and decent profitability. Note that RM0.22 is also the recent rights issue price.

Key Risks to Our View:

Irrational competition. Irrational competition could persist despite significant capacity cuts by MAB in the KL-Australia segment, as other airlines (notably Emirates) could move in to replace that capacity. Also, over time, there is increasing risk that regional airlines may cut fares once their expensive fuel hedging contracts expire.

At A Glance

Issued Capital (m shrs)	4,148
Mkt. Cap (RMm/US$m)	850 / 217
Major Shareholders	
Tune Group Sdn Bhd (%)	17.8
AirAsia Bhd (%)	13.8
Bin Meranun Kamarudin (%)	8.1
Free Float (%)	60.3
3m Avg. Daily Val (US$m)	1.3

ICB Industry : Consumer Services / Travel & Leisure

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

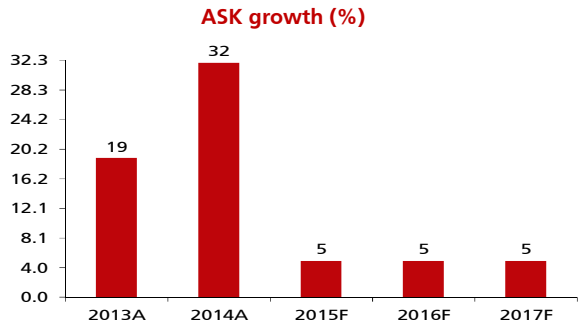
Modest capacity growth for Malaysia in the near term. Net of disposals and deferrals, AAX plans to add 6/2/5 A330 aircraft to its fleet in FY15/16/17F. However, the bulk of these new aircraft are earmarked for its Thailand and Indonesia associates. As such, we expect AAX to grow ASK by 5% in FY15-17F. In FY15, most of the ASK growth will likely happen in the 4Q as AAX plans to capitalise on the seasonally stronger demand and MAB's capacity cut.

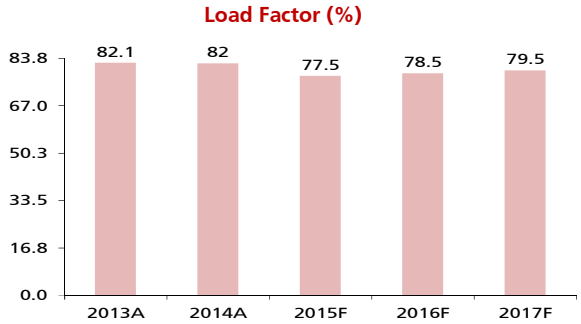
Expect improvements in load factors. AAX registered only 74% passenger load factor in 1Q15 (-12ppts y-o-y) after it halted marketing activities following the QZ 8501 accident. However, we expect load factor to improve in 2H, premised on seasonally stronger demand and MAB cutting capacity on Australian routes. As such, AAX's load factor could improve to 77.5% in FY15F. We expect AAX's load factor to improve by 1ppt p.a. in FY16-17F given the modest capacity growth.

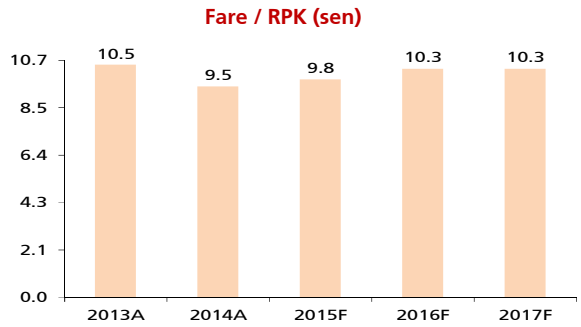
AAX to benefit from MAB's capacity cuts. MAB plans to drop its Brisbane route and reduce the frequency of its other Australian routes starting August. We expect this to lead to a more benign competitive environment in the KL-Australia segment (34% of AAX's ASK). As a result, we forecast AAX's yields (fare/RPK) will improve by 3%/5% in FY15/16F. The improvement is expected to be more pronounced in FY16F because of the full-year impact of MAB's capacity cuts.

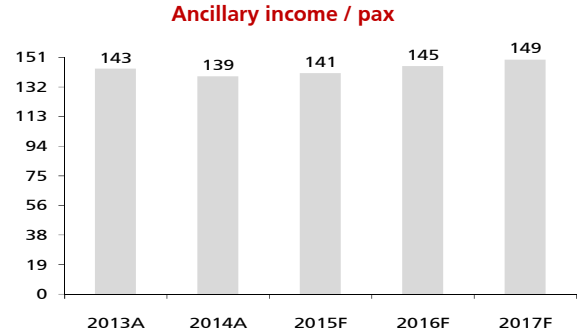
Initiatives in the pipeline to drive ancillary income. AAX is set to launch the WIFI Onboard service and enhance its duty-free offerings and platforms in 2Q-4Q15. Also, the adoption of Fly Thru services is set to rise as more city pairs are made available with the addition of new hubs (Bangkok, Bali) and routes. Taking all these into account, we expect ancillary income per pax to grow by 1%/3%/3% in FY15/16/17F.

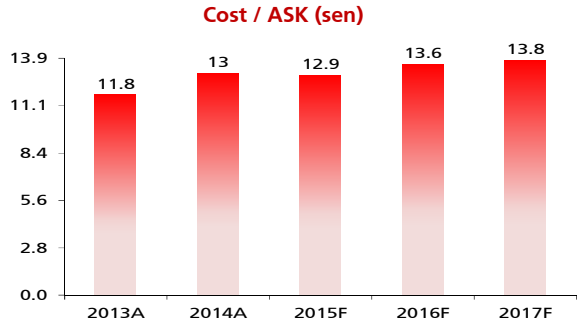
Lower fuel price to have limited impact on unit cost. We expect AAX's cost/ASK to remain flat in FY15F despite sharply lower fuel price, as the fuel cost savings will be fettered away by the weaker MYR. We estimate AAX's fuel cost savings at 1.3 sen/ASK in FY15F (22% savings), after adjusting for the group's hedging policy and the weaker MYR. This will be offset by the expected increase in maintenance and lease expenses, due to increasing reliance on operating leases and the weaker MYR. Going forward, we expect cost/ASK to increase further by 5%/2% in FY16/17F for the same reasons.











Source: Company, AllianceDBS

Balance Sheet:

Leverage ratios had peaked in FY14. AAX recently completed a 3-for-4 rights issue which raised RM391m for the group. As a result, we expect net gearing to fall to 0.8x in FY15F. This is expected to improve further to 0.4x/0.1x in FY16/17F, helped by off-balance sheet financing of its future aircraft deliveries (i.e. operating lease) and turnaround of scheduled flight operations (i.e. rising equity and cash levels). As such, AAX will no longer be dogged by insolvency concerns.

Share Price Drivers:

Profitability and outlook the key drivers of share price. Our discussions with institutional investors suggest the market remains skeptical of AAX's ability to turnaround and deliver a profit in 4Q15. But, our analysis suggests this is possible with MAB cutting capacity by 30-40% for its Australian routes. Our base case assumes AAX will be able to book a small profit in 4Q15. With the stock trading at below 1x FY16F P/BV, it could re-rate significantly if actual 4Q15 results turn out more bullish than our expectations.

Yield trends a key indicator of profit. Under normal circumstances, AAX generates most of its profits in the 1Q and 4Q of the year, with 2Q normally loss-making for the group. However, all eyes will be on yield trend in 2Q-3Q15, for indications of profitability in 4Q15. If yield rises by more than we expect (>8.8-9.5 sen/RPK), AAX's share price could surge as investors would take this as a sign of bumper profits in 4Q15.

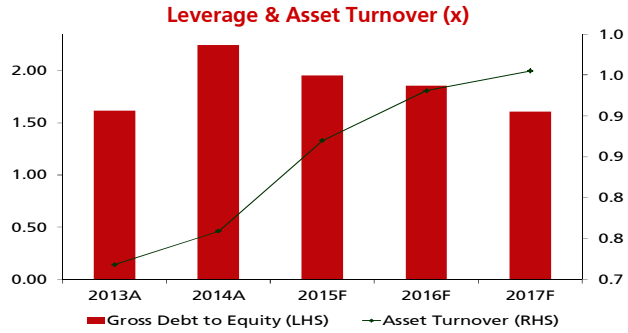
Key Risks:

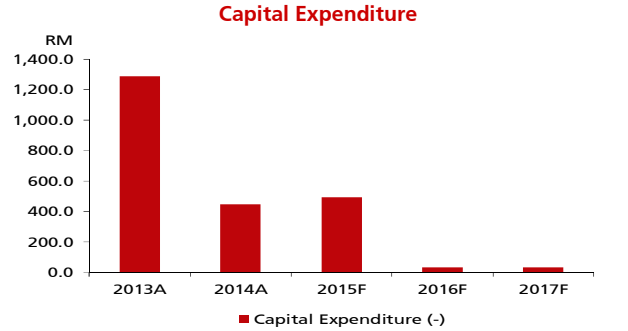
USD could appreciate further against MYR. A stronger USD will pressure AAX's profitability as c.75% of its OPEX is in USD. Debt repayments will also be a concern as most of its borrowings are in USD.

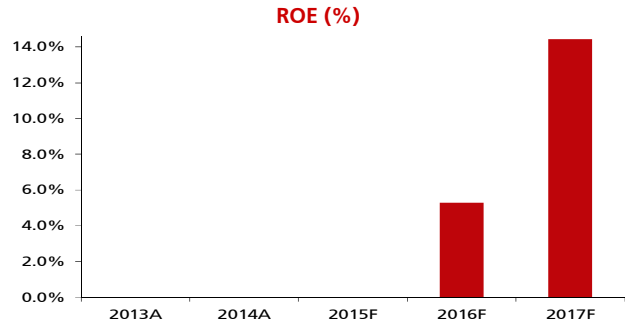
Irrational competition. Irrational competition could persist despite significant capacity cuts by MAB in the KL-Australia segment, as other airlines (notably Emirates) could move in to replace that capacity. Also, over time, there is increasing risk that regional airlines may cut fares once their expensive fuel hedging contracts expire.

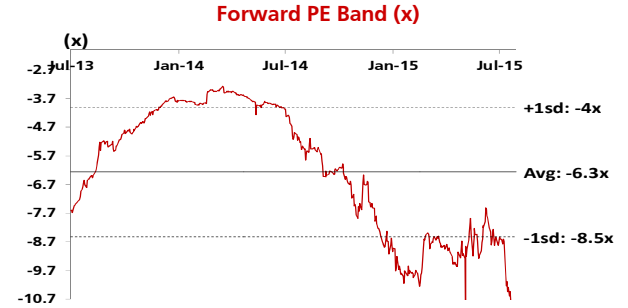
COMPANY BACKGROUND

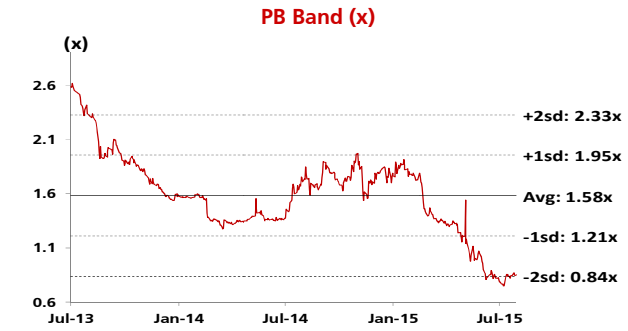
AirAsia X is a low-cost airline that operates short-haul international routes, i.e. flight time longer than four hours. It is an affiliate of the AirAsia group, and operates from hubs in Kuala Lumpur (Malaysia), Bangkok (Thailand), and Bali (Indonesia).











Source: Company, AllianceDBS

Key Assumptions

FY Dec	2013A	2014A	2015F	2016F	2017F
ASK growth (%)	19.0	32.0	5.0	5.0	5.0
Load Factor (%)	82.1	82.0	77.5	78.5	79.5
Fare / RPK (sen)	10.5	9.5	9.8	10.3	10.3
Ancillary income / pax	143.1	138.6	140.5	144.8	149.1
Cost / ASK (sen)	11.8	13.0	12.9	13.6	13.8

Expect yields to recover by 3%/5% in FY15/16F

Income Statement (RM m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	2,308	2,937	3,393	3,888	4,221
Other Opng (Exp)/Inc	(2,245)	(3,234)	(3,418)	(3,784)	(4,035)
Operating Profit	**64**	**(298)**	**(24)**	**104**	**186**
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(1)	(36)	(68)	0	1
Net Interest (Exp)/Inc	(73)	(153)	(79)	(56)	(47)
Exceptional Gain/(Loss)	(202)	(119)	(76)	0	0
Pre-tax Profit	**(212)**	**(605)**	**(247)**	**48**	**140**
Tax	124	86	(1)	(2)	(1)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	**(88)**	**(519)**	**(248)**	**46**	**139**
Net Profit before Except.	(11)	(487)	(172)	46	139
EBITDA	184	(153)	34	233	320
Growth					
Revenue Gth (%)	17.3	27.2	15.5	14.6	8.6
EBITDA Gth (%)	18.6	nm	nm	581.9	36.9
Opg Profit Gth (%)	33.3	nm	91.8	nm	79.0
Net Profit Gth (Pre-ex) (%)	81.2	4,499.9	(64.7)	(126.7)	202.0
Margins & Ratio					
Opg Profit Margin (%)	2.8	(10.1)	(0.7)	2.7	4.4
Net Profit Margin (%)	(3.8)	(17.7)	(7.3)	1.2	3.3
ROAE (%)	(9.7)	(53.6)	(32.0)	5.3	14.4
ROA (%)	(2.7)	(13.4)	(6.4)	1.1	3.1
ROCE (%)	2.4	(10.8)	(1.0)	3.9	7.0
Div Payout Ratio (%)	N/A	N/A	N/A	0.0	0.0
Net Interest Cover (x)	0.9	(1.9)	(0.3)	1.9	4.0

Return to profitability by FY16F

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RM m)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	749	672	699	819	775
Cost of Goods Sold	0	0	0	0	0
Gross Profit	**0**	**0**	**0**	**0**	**0**
Other Oper. (Exp)/Inc	(784)	(806)	(841)	(888)	(773)
Operating Profit	**(35)**	**(135)**	**(142)**	**(69)**	**3**
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(5)	(14)	(7)	(10)	(15)
Net Interest (Exp)/Inc	(20)	(22)	(36)	(25)	(21)
Exceptional Gain/(Loss)	12	38	(38)	(97)	(84)
Pre-tax Profit	**(48)**	**(132)**	**(224)**	**(200)**	**(117)**
Tax	37	4	14	32	(9)
Minority Interest	0	0	0	0	0
Net Profit	**(11)**	**(129)**	**(211)**	**(168)**	**(126)**
Net profit bef Except.	(62)	(169)	(186)	(104)	(33)
EBITDA	5	(100)	(102)	(35)	25
Growth					
Revenue Gth (%)	10.1	(10.4)	4.0	17.2	(5.4)
EBITDA Gth (%)	nm	nm	(1.4)	65.6	nm
Opg Profit Gth (%)	(22.0)	(289.7)	(5.7)	51.8	nm
Net Profit Gth (Pre-ex) (%)	19.4	172.9	10.3	(44.3)	(67.8)
Margins					
Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	(4.6)	(20.1)	(20.4)	(8.4)	0.3
Net Profit Margins (%)	(1.5)	(19.2)	(30.2)	(20.6)	(16.2)

Smaller core net loss in 1Q15 helped by lower fuel costs and higher-margin wet leases

Balance Sheet (RM m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	2,913	2,404	1,785	1,689	1,591
Invts in Associates & JVs	20	38	0	0	1
Other LT Assets	616	790	790	790	790
Cash & ST Invts	269	127	1,055	1,312	1,627
Inventory	1	1	1	1	1
Debtors	183	374	433	496	538
Other Current Assets	1	1	1	1	1
Total Assets	**4,002**	**3,736**	**4,065**	**4,290**	**4,550**
ST Debt	446	513	513	513	513
Creditor	349	852	885	980	1,044
Other Current Liab	421	601	678	762	819
LT Debt	1,550	1,066	1,142	1,142	1,142
Other LT Liabilities	0	0	0	0	0
Shareholder's Equity	1,236	704	846	892	1,031
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	**4,002**	**3,736**	**4,065**	**4,290**	**4,550**
Non-Cash Wkg. Capital	(585)	(1,076)	(1,128)	(1,244)	(1,322)
Net Cash/(Debt)	(1,728)	(1,452)	(600)	(343)	(28)
Debtors Turn (avg days)	26.1	34.6	43.4	43.6	44.7
Creditors Turn (avg days)	(921.3)	(1,212.6)	(2,510.4)	(2,630.6)	(2,789.0)
Inventory Turn (avg days)	(2.7)	(2.4)	(3.9)	(3.8)	(3.8)
Asset Turnover (x)	0.7	0.8	0.9	0.9	1.0
Current Ratio (x)	0.4	0.3	0.7	0.8	0.9
Quick Ratio (x)	0.4	0.3	0.7	0.8	0.9
Net Debt/Equity (X)	1.4	2.1	0.7	0.4	0.0
Net Debt/Equity ex MI (X)	1.4	2.1	0.7	0.4	0.0
Capex to Debt (%)	64.5	(28.2)	(29.8)	2.0	2.0
Z-Score (X)	0.5	(0.1)	0.5	0.8	1.0

Gearing no longer a concern

Source: Company, AllianceDBS

Cash Flow Statement (RM m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	(212)	(605)	(247)	48	140
Dep. & Amort.	121	181	126	129	132
Tax Paid	0	(1)	(1)	(2)	(1)
Assoc. & JV Inc/(loss)	1	36	68	0	(1)
Chg in Wkg.Cap.	211	172	52	115	79
Other Operating CF	69	44	76	0	0
Net Operating CF	**189**	**(53)**	**74**	**291**	**349**
Capital Exp.(net)	(1,288)	446	493	(34)	(34)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	(20)	(54)	(30)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	0	0	0
Net Investing CF	**(1,309)**	**392**	**463**	**(34)**	**(34)**
Div Paid	0	0	0	0	0
Chg in Gross Debt	484	(481)	0	0	0
Capital Issues	723	0	391	0	0
Other Financing CF	(51)	(1)	0	0	0
Net Financing CF	**1,156**	**(483)**	**391**	**0**	**0**
Currency Adjustments	1	6	0	0	0
Chg in Cash	38	(137)	928	257	315
Opg CFPS (sen)	(0.9)	(9.5)	0.5	4.2	6.5
Free CFPS (sen)	(46.4)	16.6	13.7	6.2	7.6

Source: Company, AllianceDBS

Target Price & Ratings History

***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date	Closing Price	Target Price	Rating
1:	20 Aug 14	0.62	0.58	Hold
2:	02 Sep 14	0.62	0.58	Hold
3:	28 Oct 14	0.58	0.58	Hold
4:	20 Nov 14	0.49	0.44	Fully Valued
5:	27 Jan 15	0.55	0.44	Fully Valued
6:	04 Feb 15	0.51	0.45	Fully Valued
7:	25 Feb 15	0.48	0.38	Fully Valued
8:	30 Apr 15	0.33	0.38	Fully Valued
9:	28 May 15	0.26	0.22	Fully Valued
10:	02 Jul 15	0.21	0.22	Hold

Source: AllianceDBS

Thailand Company Guide

Asia Aviation

Edition 1 Version 1 | Bloomberg: AAV TB EQUITY | Reuters: AAV.BK

Refer to important disclosures at the end of this report

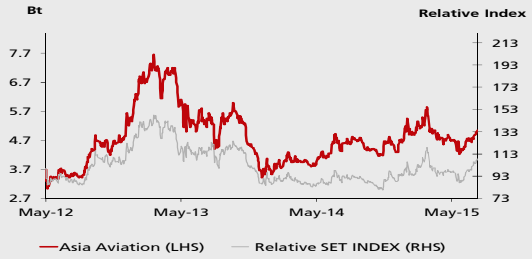
BUY

Last Traded Price: Bt5.05 (**SET :** 1,428.79)
Price Target : Bt6.30 (25% upside)

Potential Catalyst: Stronger travel demand to boost yields and load factors, cheaper fuel
Where we differ: Earnings forecasts are in line with consensus

Analyst
TAN Kee Hoong +603 2604 3913 keehoong@alliancedbs.com

Price Relative



Forecasts and Valuation

FY Dec (Bt m)	2014A	2015F	2016F	2017F
Revenue	25,356	30,169	34,247	38,448
EBITDA	1,340	5,425	6,239	7,278
Pre-tax Profit	330	3,848	4,388	5,060
Net Profit	183	1,820	2,076	2,394
Net Pft (Pre Ex.)	91	1,820	2,076	2,394
EPS (Bt)	0.02	0.38	0.43	0.49
EPS Pre Ex. (Bt)	0.02	0.38	0.43	0.49
EPS Gth (%)	(91)	1,905	14	15
EPS Gth Pre Ex (%)	(91)	1,905	14	15
Diluted EPS (Bt)	0.04	0.38	0.43	0.49
Net DPS (Bt)	0.00	0.00	0.00	0.00
BV Per Share (Bt)	4.03	4.40	4.83	5.32
PE (X)	269.7	13.5	11.8	10.2
PE Pre Ex. (X)	269.7	13.5	11.8	10.2
P/Cash Flow (X)	13.2	4.7	4.0	3.5
EV/EBITDA (X)	28.2	6.8	5.9	5.0
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.3	1.1	1.0	0.9
Net Debt/Equity (X)	0.2	0.1	0.0	CASH
ROAE (%)	0.5	8.9	9.3	9.7
Earnings Rev (%):		N/A	N/A	N/A
Consensus EPS (Bt):		0.36	0.41	49.7
Other Broker Recs:		B: 16	S: 2	H: 3

Source of all data: Company, DBS Vickers, Bloomberg Finance L.P

FLYING HIGH

Beneficiary of the Thai tourism boom. Asia Aviation (AAV) is our top sector pick with a TP of Bt6.30, to ride on Thailand's booming tourism industry. Supported by increased travel demand and cheaper fuel, we expect ROE to hit 9% in FY15-17F, the highest since IPO.

Focusing on ASEAN and Chinese regions. With 55% stake in Thai AirAsia (TAA), AAV will be the chief beneficiary of rising tourist arrivals in Thailand (+24% y-o-y in 1H15), led by tourists from ASEAN region (+32% y-o-y) and China (+97% y-o-y). This is because TAA international network primarily serves destinations in ASEAN and China. Also, Thai AirAsia X (TAAX) with hub is in Bangkok, will drive long-haul tourists (i.e. North Asia) to TAA's short-haul network to connect to other domestic destinations in Thailand.

Expect strong earnings improvement in FY15F. We expect AAV's core net profit to surge to Bt1,820m in FY15F (FY14: Bt91m), driven by stronger travel demand amid rising tourist arrivals (lifting yields and load factor) and cheaper fuel. Thereafter, we expect core earnings to grow by 14%/15% in FY16/17F. Our forecasts assume jet fuel costs of US$99-100/bbl, which is conservative relative to spot prices which have been at US$60-80/bbl YTD.

Valuation:

Valuation to rerate on record ROE. Our Bt6.30 TP is based on 1.3x FY16F P/BV (+1SD to mean P/BV). Our forecasts are in line with street estimates, but we expect the stock to re-rate from the current 1.0x FY16F P/BV (mean valuation) supported by anticipated record high ROE (c.9%).

Key Risks to Our View:

Stronger US$. The stronger US$ against the THB and other regional currencies (i.e. MYR, SGD, IDR, RMB, JPY) will hurt AAV, as the bulk of TAA's revenues are in these currencies, while 66%/50% of OPEX/finance costs are in US$.

At A Glance

Issued Capital (m shrs)	4,850
Mkt. Cap (Btm/US$m)	24,493 / 697
Major Shareholders	
Mr. Tassapon Bijleveld (%)	44.0
Thai NVDR (%)	7.7
Free Float (%)	48.3
3m Avg. Daily Val (US$m)	3.8

ICB Industry : Consumer Services / Travel & Leisure

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

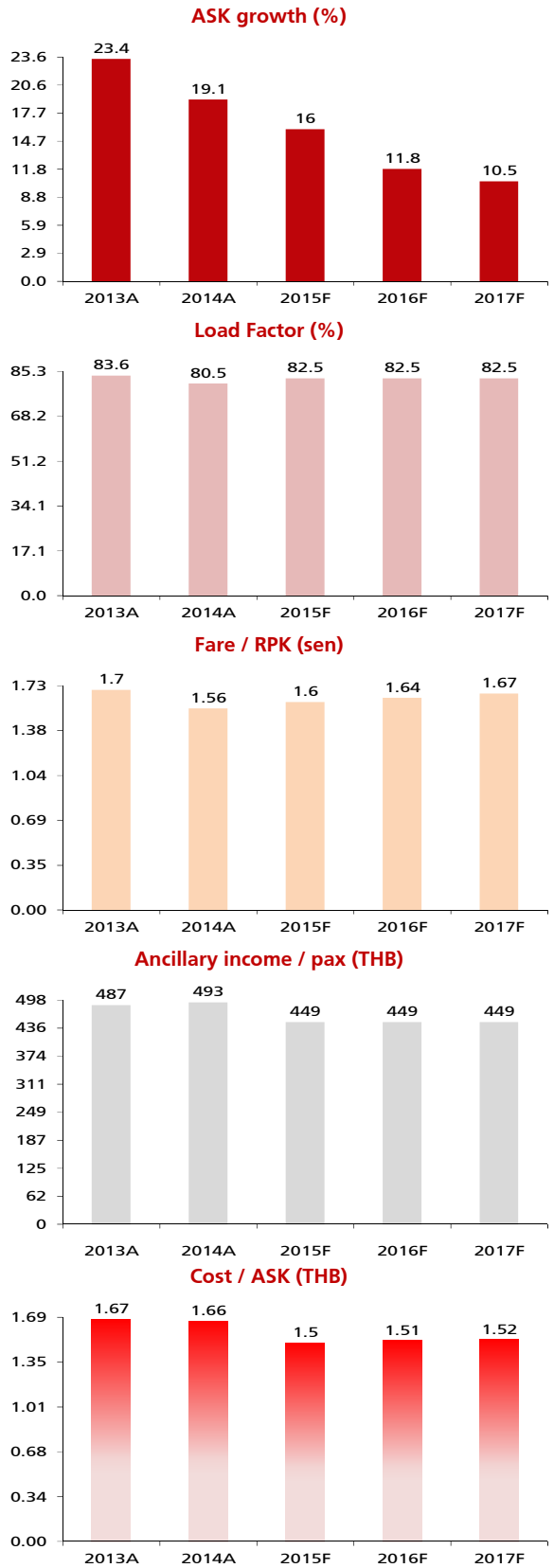
To add five aircraft p.a. TAA plans to grow its fleet by five aircraft a year in FY15-18F, which would take its fleet from 42 aircraft in 1Q15 to 60 by FY18. Premised on this, we expect TAA to grow ASK by 16%/12%/11% in FY15/16/17F. The additional capacities will be deployed to increase the frequency of existing routes, as well as to expand TAA's route network. The near-term focus would be destinations in Indochina, Southern China and India.

Booming inbound tourism to lift load factor. Supported by its focus on the ASEAN and Chinese markets, we expect TAA to be the prime beneficiary of the booming tourism industry in Thailand, led by tourists from China (+97% y-o-y in 1H15) and ASEAN countries (+32% y-o-y). We expect the rising tourist arrivals to lift passenger load factor by 2ppts y-o-y in 2015F. However, we conservatively expect load factor to stay flat in 2016-17F.

Yields to improve on rising travel demand and milder competition. After falling 4-11% y-o-y every quarter since 2Q13, TAA's fare/RPK (yield) is turning around; it was flat y-o-y in 4Q14 and grew 1% y-o-y in 1Q15 driven by rising tourist arrivals in Thailand. We forecast yield will grow by 3% in FY15F and 2% p.a. in FY16-17F, premised on the secular growth of Thailand's tourism industry. Our assumptions remain conservative, with FY17F yield below what TAA achieved in FY13, (i.e. prior to the military coup in FY14).

Lower ancillary income/pax in FY15F. The yield outlook is turning positive, but we forecast ancillary income/pax will drop 9% y-o-y to Bt449 in FY15F, in line with the recent decline of 3-8% y-o-y in 4Q14 and 1Q15. Our analysis suggests that ancillary income/pax has had an inverse relationship (correlation 0.71) with yield since 1Q13.

Cost savings driven by cheaper fuel. We expect fuel cost/ASK to drop by 22% in FY15F, driven by cheaper fuel. In turn, this should reduce cost/ASK (i.e. unit cost) by 10% this year. Thereafter, we expect unit cost to rise by 1% p.a. in FY16-17F, premised on the weaker THB.



Source: Company, DBS Vickers

Balance Sheet:

Move toward finance leases will not strain balance sheet. TAA typically finances incoming aircraft with a mix of finance and operating leases. It plans to take delivery of two aircraft under finance lease (i.e. on balance sheet), and three on operating lease in FY15F. But, management plans to use more finance leases to fund incoming aircraft from FY16F onwards. Despite this, we do not expect it to strain AAV's balance sheet, and project net gearing will drop from 0.4x in FY14 to 0.2x/0.1/zero in FY15/16/17F.

Share Price Drivers:

Inbound tourism. Thailand's aviation traffic is primarily driven by the inbound tourism market. And we expect the rapidly recovering and rising tourist arrivals to boost AAV's earnings. The inbound market is currently driven by ASEAN and Chinese tourists, the key markets targeted by TAA's international network. The share price will rerate as tourist arrivals continue to pick up in Thailand.

Boost from cheaper fuel. We expect AAV to register Bt1,113m saving in fuel costs in FY15F, premised on jet fuel cost of US$99/bbl (after accounting for fuel hedges and deliveries). Meanwhile, our FY16-17F earnings assume average jet fuel cost of US$100/bbl. This leaves room for further earnings upside, as spot jet fuel price is only c.US60/bbl currently. If spot prices stay at this level, it could lead to a string of earnings upgrades by the market, which would rerate the stock.

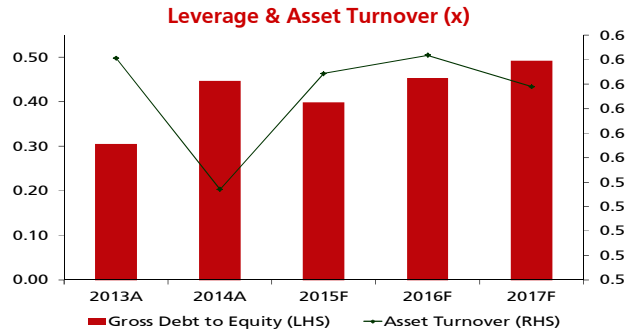
Key Risks:

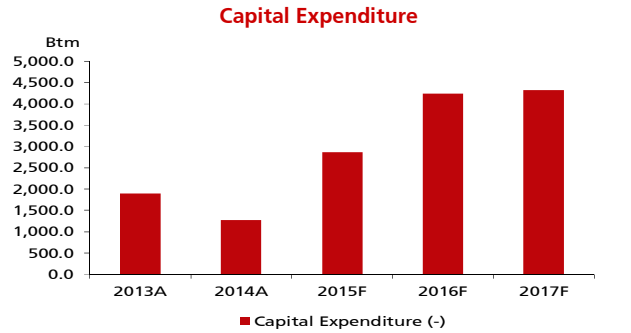
Stronger US$. The stronger US$ against the THB and other regional currencies (i.e. MYR, SGD, IDR, RMB, JPY) will hurt AAV, as the bulk of TAA's revenues are in these currencies, while 66%/50% of OPEX/finance costs are in US$.

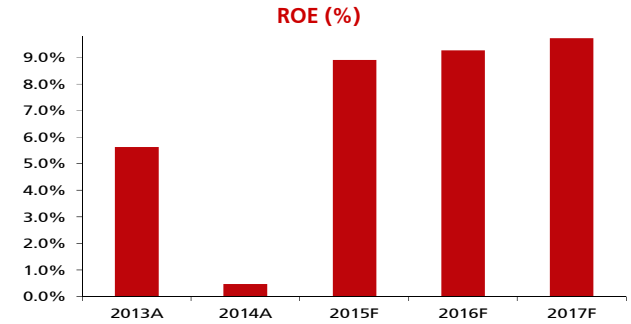
Spike in fuel prices. Fuel costs accounted for c.44% of TAA's total OPEX in FY14. As such, a spike in global fuel prices would hurt the airline's profitability, and in turn, AAV's financial results. This risk is especially prominent for LCCs because fuel costs typically make up a larger share of OPEX than at FSCs.

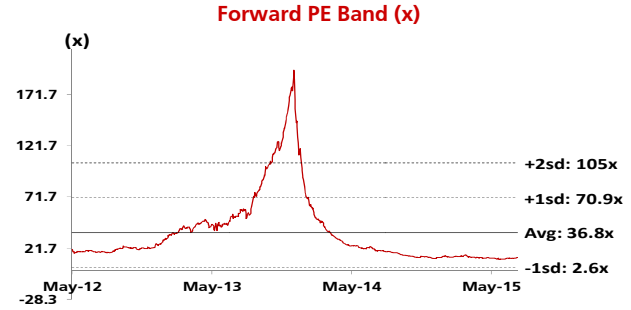
COMPANY BACKGROUND

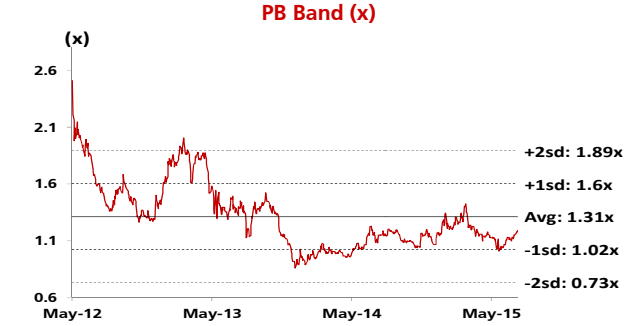
Asia Aviation PCL (AAV) operates TAA under a 55:45 JV with AirAsia. TAA is a leading airline in Thailand, accounting for 19% of industry seat capacity. It operates both domestic and international flights which primarily serve destinations in China and Southeast Asia.











Source: Company, DBS Vickers

Key Assumptions

FY Dec	2013A	2014A	2015F	2016F	2017F
ASK growth (%)	23.4	19.1	16.0	11.8	10.5
Load Factor (%)	83.6	80.5	82.5	82.5	82.5
Fare / RPK (sen)	1.70	1.56	1.60	1.64	1.67
Ancillary income / pax	487	493	449	449	449
Cost / ASK (THB)	1.67	1.66	1.50	1.51	1.52

Income Statement (Bt m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	23,485	25,356	30,169	34,247	38,448
Cost of Goods Sold	(19,928)	(23,708)	(24,509)	(27,732)	(30,892)
Gross Profit	**3,557**	**1,648**	**5,661**	**6,516**	**7,556**
Other Opng (Exp)/Inc	(1,085)	(1,131)	(1,439)	(1,702)	(1,965)
Operating Profit	**2,472**	**517**	**4,221**	**4,814**	**5,592**
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(171)	(313)	(373)	(426)	(532)
Exceptional Gain/(Loss)	258	126	0	0	0
Pre-tax Profit	**2,559**	**330**	**3,848**	**4,388**	**5,060**
Tax	(651)	1	(539)	(614)	(708)
Minority Interest	(865)	(148)	(1,489)	(1,698)	(1,958)
Preference Dividend	0	0	0	0	0
Net Profit	**1,043**	**183**	**1,820**	**2,076**	**2,394**
Net Profit before Except.	1,060	91	1,820	2,076	2,394
EBITDA	2,878	1,340	5,425	6,239	7,278
Growth					
Revenue Gth (%)	21.4	8.0	19.0	13.5	12.3
EBITDA Gth (%)	31.5	(53.4)	304.8	15.0	16.7
Opg Profit Gth (%)	18.7	(79.1)	716.9	14.0	16.2
Net Profit Gth (Pre-ex) (%)	38.1	(91.4)	1,904.6	14.0	15.3
Margins & Ratio					
Gross Margins (%)	15.1	6.5	18.8	19.0	19.7
Opg Profit Margin (%)	10.5	2.0	14.0	14.1	14.5
Net Profit Margin (%)	4.4	0.7	6.0	6.1	6.2
ROAE (%)	5.6	0.5	8.9	9.3	9.7
ROA (%)	2.7	0.2	3.5	3.6	3.6
ROCE (%)	5.4	1.3	8.2	8.4	8.4
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	14.5	1.7	11.3	11.3	10.5

Source: Company, DBS Vickers

Quarterly / Interim Income Statement (Bt m)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	6,460	5,461	5,559	7,876	7,734
Cost of Goods Sold	(5,866)	(5,584)	(5,621)	(6,637)	(6,156)
Gross Profit	**594**	**(123)**	**(62)**	**1,239**	**1,578**
Other Oper. (Exp)/Inc	(214)	(275)	(300)	(341)	(378)
Operating Profit	**380**	**(398)**	**(363)**	**898**	**1,200**
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(54)	(65)	(87)	(107)	(108)
Exceptional Gain/(Loss)	(17)	41	84	18	15
Pre-tax Profit	**309**	**(422)**	**(365)**	**808**	**1,106**
Tax	(62)	101	(17)	(20)	(186)
Minority Interest	(108)	145	173	(359)	(414)
Net Profit	**139**	**(176)**	**(209)**	**430**	**506**
Net profit bef Except.	156	(217)	(293)	412	492
EBITDA	554	(214)	(142)	1,143	1,474
Growth					
Revenue Gth (%)	(0.6)	(15.5)	1.8	41.7	(1.8)
EBITDA Gth (%)	(23.1)	nm	33.5	nm	29.0
Opg Profit Gth (%)	(34.6)	nm	8.9	nm	33.7
Net Profit Gth (Pre-ex) (%)	16.0	(239.4)	35.3	(240.4)	19.4
Margins					
Gross Margins (%)	9.2	(2.2)	(1.1)	15.7	20.4
Opg Profit Margins (%)	5.9	(7.3)	(6.5)	11.4	15.5
Net Profit Margins (%)	2.2	(3.2)	(3.8)	5.5	6.5

Balance Sheet (Bt m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	10,956	16,033	17,708	20,530	23,164
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	26,162	25,976	25,970	25,964	25,959
Cash & ST Invts	6,453	6,298	8,692	13,918	19,980
Inventory	90	97	97	97	97
Debtors	1,233	1,057	1,258	1,428	1,603
Other Current Assets	40	40	40	40	40
Total Assets	**44,935**	**49,502**	**53,765**	**61,978**	**70,843**
ST Debt	615	959	959	959	959
Creditor	2,174	2,212	2,287	2,588	2,883
Other Current Liab	4,482	4,693	5,572	6,317	7,084
LT Debt	7,546	11,118	11,118	14,512	17,963
Other LT Liabilities	3,443	3,503	3,503	3,503	3,503
Shareholder's Equity	19,346	19,534	21,354	23,430	25,824
Minority Interests	7,329	7,482	8,971	10,669	12,628
Total Cap. & Liab.	**44,935**	**49,502**	**53,765**	**61,978**	**70,843**
Non-Cash Wkg. Capital	(5,293)	(5,712)	(6,465)	(7,340)	(8,227)
Net Cash/(Debt)	(1,708)	(5,779)	(3,385)	(1,553)	1,058
Debtors Turn (avg days)	16.5	16.5	14.0	14.3	14.4
Creditors Turn (avg days)	31.1	35.0	35.2	33.8	34.2
Inventory Turn (avg days)	1.6	1.5	1.5	1.3	1.2
Asset Turnover (x)	0.6	0.5	0.6	0.6	0.6
Current Ratio (x)	1.1	1.0	1.1	1.6	2.0
Quick Ratio (x)	1.1	0.9	1.1	1.6	2.0
Net Debt/Equity (X)	0.1	0.2	0.1	0.0	CASH
Net Debt/Equity ex MI (X)	0.1	0.3	0.2	0.1	CASH
Capex to Debt (%)	23.3	10.5	23.8	27.4	22.8
Z-Score (X)	2.0	1.6	1.9	1.9	1.9

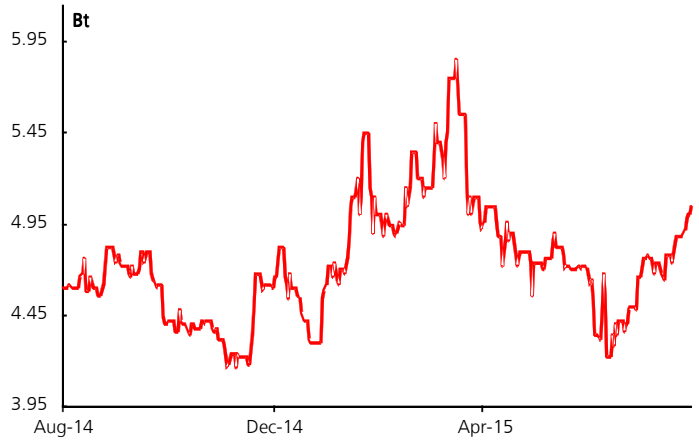
Source: Company, DBS Vickers

Cash Flow Statement (Bt m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	2,559	330	3,848	4,388	5,060
Dep. & Amort.	406	824	1,204	1,425	1,686
Tax Paid	(292)	(121)	(539)	(614)	(708)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	1,073	444	753	875	887
Other Operating CF	272	373	0	0	0
Net Operating CF	**4,020**	**1,849**	**5,266**	**6,074**	**6,925**
Capital Exp.(net)	(1,901)	(1,270)	(2,873)	(4,242)	(4,314)
Other Invts.(net)	(3,337)	3,120	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(327)	175	0	0	0
Net Investing CF	**(5,565)**	**2,025**	**(2,873)**	**(4,242)**	**(4,314)**
Div Paid	0	0	0	0	0
Chg in Gross Debt	(269)	(704)	0	3,394	3,451
Capital Issues	0	0	0	0	0
Other Financing CF	(167)	(326)	0	0	0
Net Financing CF	**(436)**	**(1,031)**	**0**	**3,394**	**3,451**
Currency Adjustments	87	(13)	0	0	0
Chg in Cash	(1,894)	2,830	2,394	5,226	6,062
Opg CFPS (Bt)	0.6	0.3	0.9	1.1	1.2
Free CFPS (Bt)	0.4	0.1	0.5	0.4	0.5

Source: Company, DBS Vickers

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating

Note *: Share price and Target price are adjusted for corporate actions.*

Source: DBS Vickers

Thailand Company Guide

Bangkok Airways

Edition 1 Version 1 | Bloomberg: BA TB | Reuters: BA.TB

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Aug 2015

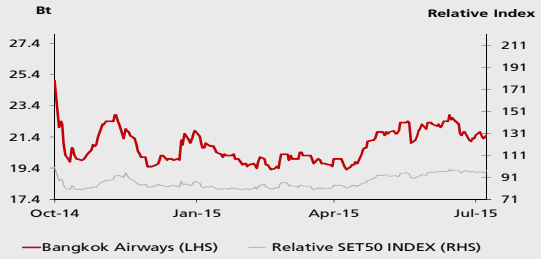
BUY

Last Traded Price: Bt21.50 (**SET 50 Index :** 935.41)
Price Target : Bt27.50 (28% upside)

Potential Catalyst: Earnings recovery and/or strong tourism arrivals into Thailand.
Where we differ: Our FY15 forecasts are in line with consensus

Analyst
Paul YONG CFA +65 6682 3712 paulyong@dbs.com

Price Relative



Forecasts and Valuation

FY Dec (Bt m)	2013A	2014A	2015F	2016F
Revenue	19,876	21,033	24,668	28,618
EBITDA	3,468	2,651	4,806	6,367
Pre-tax Profit	1,130	386	2,410	3,851
Net Profit	932	351	2,131	3,347
Net Pft (Pre Ex.)	932	351	2,131	3,347
EPS (Bt)	0.59	0.17	1.01	1.59
EPS Pre Ex. (Bt)	0.59	0.17	1.01	1.59
EPS Gth (%)	(60)	(72)	507	57
EPS Gth Pre Ex (%)	(60)	(72)	507	57
Diluted EPS (Bt)	0.59	0.17	1.01	1.59
Net DPS (Bt)	1.53	0.20	0.51	0.80
BV Per Share (Bt)	4.48	13.45	13.96	14.75
PE (X)	36.4	128.6	21.2	13.5
PE Pre Ex. (X)	36.4	128.6	21.2	13.5
P/Cash Flow (X)	17.9	150.2	18.3	11.9
EV/EBITDA (X)	13.2	16.8	9.2	7.4
Net Div Yield (%)	7.1	0.9	2.4	3.7
P/Book Value (X)	4.8	1.6	1.5	1.5
Net Debt/Equity (X)	1.6	CASH	CASH	0.0
ROAE (%)	12.8	2.0	7.4	11.1
Earnings Rev (%):			-	-
Consensus EPS (Bt):			1.01	132.3
Other Broker Recs:		B: 8	S: 1	H: 1

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

THAI TOURISM RISING

Re-iterate BUY; Bangkok Airways is a beneficiary of both a rebound in Thai tourism and lower fuel prices. We like Bangkok Airways as its earnings is well positioned to see a substantial improvement as tourist arrivals into Thailand continue to recover, coupled with much lower jet fuel costs. We project BA's earnings to improve from Bt351m in FY14 to Bt2,131m in FY15 and Bt3,347m in FY16.

Samui Airport dominance is BA's key competitive advantage in a growing SE Asia travel market. Samui accounts for over 50% of BA's revenue, and BA is expected to continue its dominance over slots at Samui Airport, which recently received approval to increase the number of daily flights from 36 to 50. We expect BA to be able to sustain its competitive edge in a fast growing SE Asia travel market, driven by strong leisure demand within the region, and from China in the long term.

Earnings to recover from 2015F onwards. Tourist arrivals into Thailand recorded over 27% growth in 1H15, and should continue to rebound for the rest of 2015. At the same time, with capacity growth moderating into the mid-teens for BA (from 39% in 2014) and lower fuel prices, we expect significant earnings recovery for BA ahead.

Valuation:

Our 12-month target price for BA is Bt 27.50. We prefer to value BA using the sum-of-parts method which consists of i) 5.5x FY15F EV/EBITDAR valuation for BA's core airline and airport businesses, and ii) market value for its stakes in BDMS and SPF, where BA has 7.83% and 25% stakes respectively. Thereon, we apply a 10% holding company discount to derive our target price of Bt27.5.

Key Risks to Our View:

BA is exposed to Thai tourism, which is vulnerable to both external and internal demand shocks.

At A Glance

Issued Capital (m shrs)	2,100
Mkt. Cap (Btm/US$m)	45,150 / 1,285
Major Shareholders	
Prasattong-Osoth Family (%)	61.6
Bangkok Bank PCL (%)	5.0
Free Float (%)	34.3
3m Avg. Daily Val (US$m)	2.9

ICB Industry : Consumer Services / Travel & Leisure

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Moderated capacity growth from FY15 onwards… After a year in which capacity grew by nearly 40% y-o-y, Bangkok Airway's capacity growth ahead is expected to be a more moderate 16% in FY15 and 15% in FY16.

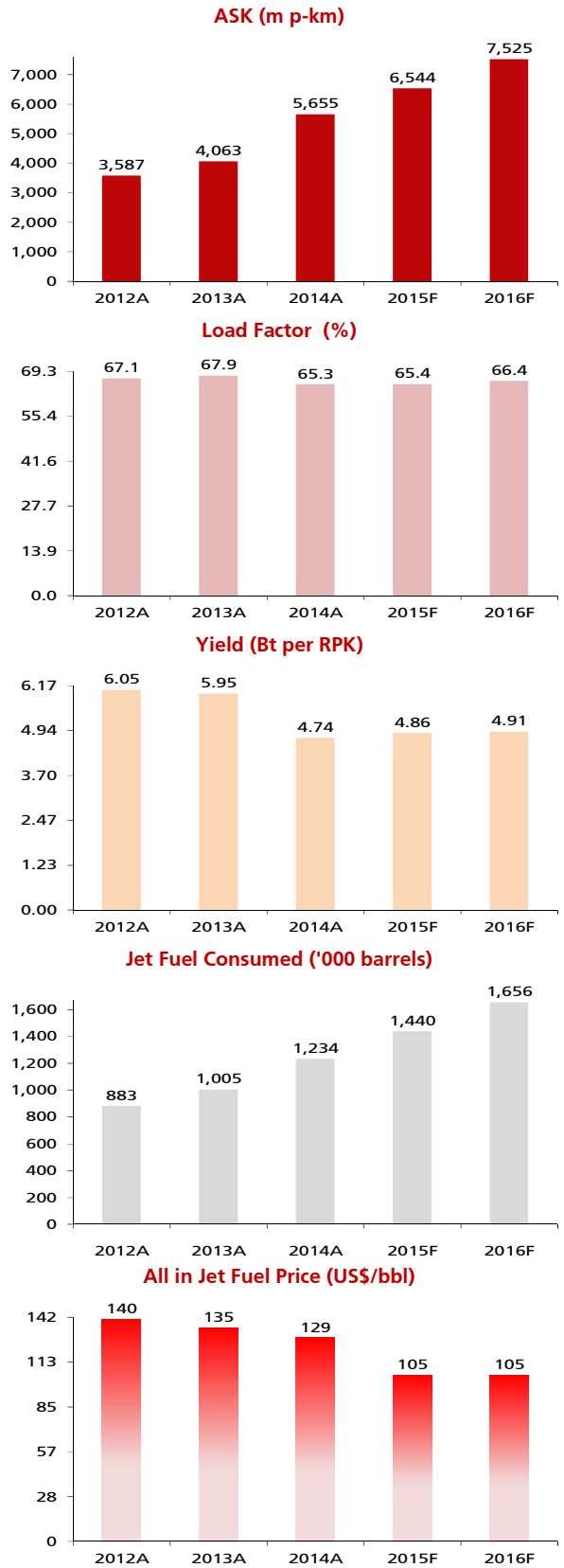
… should help improve load factors and yield… Given the near 40% increase in capacity in 2014 amid weak tourist arrivals, both load factors and yields fell fairly substantially. BA's overall load factor fell by 2.6ppts y-o-y to 65.3% in FY14 while average yield fell by over 20% to Bt4.74 per RPK. With capacity growth moderating, and with tourist numbers more positive, we project yields and load factors to improve from year to year.

We project BA's overall load factor to improve slightly to 65.4% in FY15 and by a further 1ppt to 66.4% in FY16. Meanwhile, we project yields to improve modestly over the next 2 years by 2.5% and 1% to Bt4.86 and Bt4.91 in FY15 and FY16 respectively. This is still c.20% below levels in FY12 and FY13.

… as tourists continue to return to Thailand. Tourist arrivals into Thailand fell by 6.6% to 24.7m in 2014, which was primarily due to the political uncertainty in the first half of 2014 and partially due to weakness in the Russian rouble. In 1H15, tourist arrivals into Thailand is estimated to have grown by over 27% and expectations are that tourist arrivals in 2015 will record 19% growth from 2014, to 29.5m. Hence, Bangkok Airways should be a beneficiary of this recovery.

Lower fuel costs to benefit Bangkok Airways. Spot jet fuel prices have averaged US$72/bbl so far in 2015, compared to an average of US$112/bbl in 2014. Even after taking into account fuel hedging and the stronger US$, Bangkok Airways should see substantially lower fuel costs in FY15 and FY16. We have assumed an average all-in fuel cost of US$105/bbl (including cost of US$15/bbl for distributor spread) for both FY15 and FY16, compared to US$129 in 2014.

Sustained low oil prices provide further upside. If jet fuel prices continue to hover around current levels of US$75/bbl for the rest of the year, we believe there is earnings upside risk for transport operators in particular, as our spot jet fuel price assumptions are at US$90/bbl. Hence, there could be bigger cost savings for Bangkok Airways if oil prices do not significantly increase in the second half of 2015.



Source: Company, DBS Bank

Balance Sheet:

Strong balance sheet to fund growth. Following its recent IPO in 4Q14, in which the Group raised c. Bt12.8bn (US$400m) in equity proceeds, Bangkok Airways was in a net cash position at the end of 2014.

Bangkok Airways intends to use the IPO proceeds to 1) increase its fleet size, including outright ownership 2) construct a new hanger at Suvarnabhumi International airport, and 3) make improvements at Samui Airport.

Despite the planned capital expenditures of c. Bt9bn over FY15-16 on our estimates, BA's balance sheet is expected to stay in a strong position (<10% net gearing) based on improved profitability and cash flow.

Share Price Drivers:

Share price re-rating on earnings recovery. We see BA's share price re-rating as its earnings show a sustained recovery, and also as tourist arrivals into Thailand continue to grow.

Our TP of BT27.50 for BA is based on 10% discount to its sum-of-parts, which is shown in the table below.

Sum of Parts Valuation for BA	(Bt m)
BA's core operations (5.5x EV/EBITDAR)	34,494
BDMS 7.8% Stake	25,351
SPF 25% Stake	4,513
SOTP	64,357
Holding co discount	10.0%
No. of shares (m)	2,100.0
TP per share (Bt)	27.50

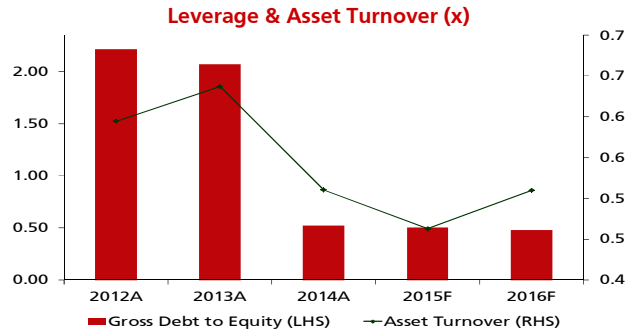
Other Key Risks:

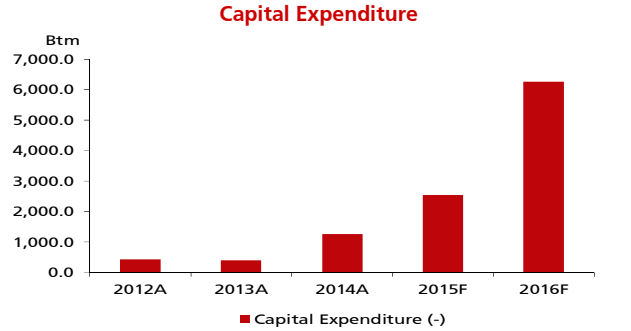
Intense competition in the airline industry

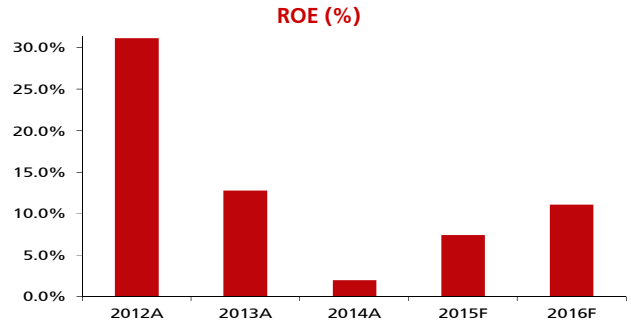
Players in this sector face intense competition, and the constant threat of price wars, especially in periods of weak demand.

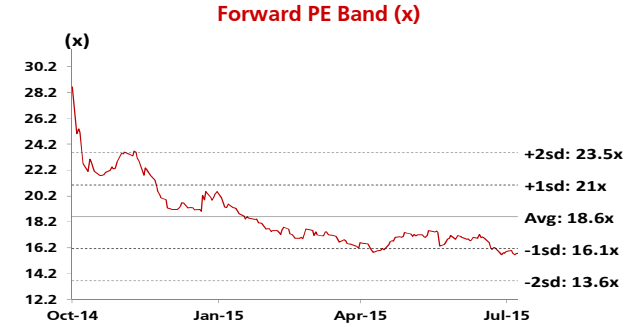
COMPANY BACKGROUND

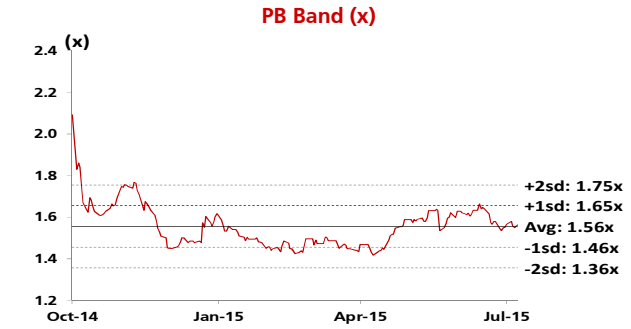
Bangkok Airways, a full-service regional carrier with hubs in Bangkok and Samui, is also a major and controlling shareholder of Samui Airport Property Fund, and has a 7.8% stake in Bangkok Dusit Medical Services.











Source: Company, DBS Bank

Key Assumptions

FY Dec	2012A	2013A	2014A	2015F	2016F
ASK (m p-km)	3,587	4,063	5,655	6,544	7,525
Load Factor (%)	67.1	67.9	65.3	65.4	66.4
Yield (Bt per RPK)	6.05	5.95	4.74	4.86	4.91
Jet Fuel Consumed ('000	883	1,005	1,234	1,440	1,656
All in Jet Fuel Price (US$/bbl)	140	135	129	105	105

Income Statement (Bt m)

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenue	17,672	19,876	21,033	24,668	28,618
Cost of Goods Sold	(13,165)	(15,034)	(17,563)	(18,783)	(21,179)
Gross Profit	**4,508**	**4,842**	**3,470**	**5,885**	**7,439**
Other Opng (Exp)/Inc	(2,556)	(3,186)	(2,974)	(3,187)	(3,336)
Operating Profit	**1,952**	**1,657**	**496**	**2,698**	**4,103**
Other Non Opg (Exp)/Inc	1,712	625	847	660	660
Associates & JV Inc	359	394	438	460	483
Net Interest (Exp)/Inc	(1,868)	(1,766)	(1,638)	(1,664)	(1,664)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	**2,291**	**1,130**	**386**	**2,410**	**3,851**
Tax	(458)	(140)	(1)	(241)	(462)
Minority Interest	(61)	(58)	(35)	(38)	(42)
Preference Dividend	0	0	0	0	0
Net Profit	**1,771**	**932**	**351**	**2,131**	**3,347**
Net Profit before Except.	1,771	932	351	2,131	3,347
EBITDA	4,751	3,468	2,651	4,806	6,367
Growth					
Revenue Gth (%)	25.3	12.5	5.8	17.3	16.0
EBITDA Gth (%)	55.3	(27.0)	(23.6)	81.3	32.5
Opg Profit Gth (%)	158.9	(15.1)	(70.0)	443.8	52.1
Net Profit Gth (Pre-ex) (%)	528.8	(47.4)	(62.3)	506.9	57.1
Margins & Ratio					
Gross Margins (%)	25.5	24.4	16.5	23.9	26.0
Opg Profit Margin (%)	11.0	8.3	2.4	10.9	14.3
Net Profit Margin (%)	10.0	4.7	1.7	8.6	11.7
ROAE (%)	31.1	12.8	2.0	7.4	11.1
ROA (%)	6.0	3.0	0.9	4.0	6.0
ROCE (%)	6.1	5.5	1.4	5.2	7.5
Div Payout Ratio (%)	37.0	260.0	119.6	50.0	50.0
Net Interest Cover (x)	1.0	0.9	0.3	1.6	2.5

Source: Company, DBS Bank

Quarterly / Interim Income Statement (Bt m)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	5,912	4,525	5,034	5,562	6,482
Cost of Goods Sold	(4,443)	(4,304)	(4,306)	(4,510)	(4,487)
Gross Profit	**1,469**	**221**	**728**	**1,051**	**1,995**
Other Oper. (Exp)/Inc	(752)	(639)	(743)	(840)	(770)
Operating Profit	**717**	**(417)**	**(15)**	**211**	**1,225**
Other Non Opg (Exp)/Inc	178	122	250	297	251
Associates & JV Inc	105	103	120	110	110
Net Interest (Exp)/Inc	(418)	(407)	(403)	(410)	(381)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	**582**	**(356)**	**(48)**	**208**	**1,205**
Tax	(56)	34	2	19	(119)
Minority Interest	(6)	(12)	(5)	(5)	(12)
Net Profit	**520**	**(334)**	**(51)**	**222**	**1,074**
Net profit bef Except.	520	(334)	(51)	222	1,074
EBITDA	1,146	212	521	796	1,784
Growth					
Revenue Gth (%)	N/A	(23.5)	11.3	10.5	16.6
EBITDA Gth (%)	nm	(81.5)	145.1	52.9	124.1
Opg Profit Gth (%)	nm	nm	96.4	nm	479.3
Net Profit Gth (Pre-ex) (%)	nm	(164.2)	(84.7)	(534.8)	383.8
Margins					
Gross Margins (%)	24.8	4.9	14.5	18.9	30.8
Opg Profit Margins (%)	12.1	(9.2)	(0.3)	3.8	18.9
Net Profit Margins (%)	8.8	(7.4)	(1.0)	4.0	16.6

Balance Sheet (Bt m)

FY Dec	2012A	2013A	2014A	2015F	2016F
Net Fixed Assets	6,379	6,339	6,974	8,783	14,189
Invts in Associates & JVs	1,957	1,926	1,926	1,926	1,926
Other LT Assets	15,827	16,414	24,844	24,844	24,844
Cash & ST Invts	3,725	3,064	15,607	15,975	13,359
Inventory	231	228	230	270	314
Debtors	2,992	1,679	1,729	2,027	2,352
Other Current Assets	896	743	743	743	743
Total Assets	**32,008**	**30,393**	**52,053**	**54,569**	**57,725**
ST Debt	2,932	2,108	2,108	2,108	2,108
Creditor	1,829	2,357	2,305	2,703	3,136
Other Current Liab	2,737	3,129	3,645	4,659	5,668
LT Debt	14,167	12,770	12,770	12,770	12,770
Other LT Liabilities	2,624	2,837	2,837	2,837	2,837
Shareholder's Equity	7,522	7,080	28,241	29,307	30,980
Minority Interests	198	111	146	184	226
Total Cap. & Liab.	**32,008**	**30,393**	**52,053**	**54,569**	**57,725**
Non-Cash Wkg. Capital	(447)	(2,836)	(3,248)	(4,322)	(5,395)
Net Cash/(Debt)	(13,373)	(11,814)	729	1,097	(1,520)
Debtors Turn (avg days)	43.9	42.9	29.6	27.8	27.9
Creditors Turn (avg days)	52.0	52.8	50.2	50.6	52.4
Inventory Turn (avg days)	6.1	5.8	4.9	5.1	5.2
Asset Turnover (x)	0.6	0.6	0.5	0.5	0.5
Current Ratio (x)	1.0	0.8	2.3	2.0	1.5
Quick Ratio (x)	0.9	0.6	2.2	1.9	1.4
Net Debt/Equity (X)	1.7	1.6	CASH	CASH	0.0
Net Debt/Equity ex MI (X)	1.8	1.7	CASH	CASH	0.0
Capex to Debt (%)	2.5	2.7	8.5	17.1	42.1
Z-Score (X)	NA	1.8	2.0	2.2	2.2

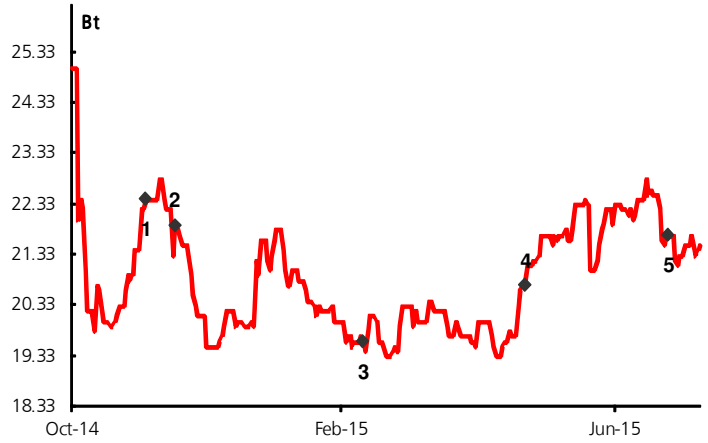
Source: Company, DBS Bank

Cash Flow Statement (Bt m)

FY Dec	2012A	2013A	2014A	2015F	2016F
Pre-Tax Profit	2,291	1,130	386	2,410	3,851
Dep. & Amort.	594	575	630	736	857
Tax Paid	(58)	(268)	(1)	(241)	(462)
Assoc. & JV Inc/(loss)	(359)	(394)	(438)	(460)	(483)
Chg in Wkg.Cap.	1,408	402	(8)	428	465
Other Operating CF	(834)	456	(270)	(407)	(424)
Net Operating CF	**3,041**	**1,901**	**301**	**2,466**	**3,805**
Capital Exp.(net)	(427)	(403)	(1,262)	(2,541)	(6,258)
Other Invts.(net)	32	209	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	491	645	682	716	752
Other Investing CF	(117)	366	26	151	155
Net Investing CF	**(22)**	**817**	**(554)**	**(1,674)**	**(5,351)**
Div Paid	(655)	(2,429)	0	(420)	(1,065)
Chg in Gross Debt	(61)	(2,036)	0	0	0
Capital Issues	13	638	12,800	0	0
Other Financing CF	(7)	2	3	4	5
Net Financing CF	**(710)**	**(3,826)**	**12,803**	**(416)**	**(1,060)**
Currency Adjustments	0	0	0	0	0
Chg in Cash	2,309	(1,109)	12,549	376	(2,607)
Opg CFPS (Bt)	1.3	0.9	0.1	1.0	1.6
Free CFPS (Bt)	2.2	0.9	(0.5)	0.0	(1.2)

Source: Company, DBS Bank

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date	Closing Price	Target Price	Rating
1:	03 Dec 14	22.40	27.50	Buy
2:	16 Dec 14	21.90	27.50	Buy
3:	10 Mar 15	19.60	27.50	Buy
4:	21 May 15	20.70	27.50	Buy
5:	24 Jul 15	21.70	27.50	Buy

Source: DBS Bank

Indonesia Company Guide

Garuda Indonesia

Edition 1 Version 1 | Bloomberg: GIAA IJ | Reuters: GIAA.JK

Refer to important disclosures at the end of this report

BUY

Last Traded Price: Rp423 (**JCI** : 4,770.30)
Price Target: Rp630 (49% upside) (Prev Rp640)

Potential Catalyst: Earnings recovery and execution
Where We Differ: We have higher-than-consensus forecasts

Analyst
Paul YONG CFA +65 6682 3712 paulyong@dbs.com

Price Relative

Forecasts and Valuation

FY Dec (US$ m)	2013A	2014A	2015F	2016F
Revenue	3,759	3,934	4,245	4,632
EBITDA	218	(220)	321	353
Pre-tax Profit	14	(461)	103	122
Net Profit	11	(373)	76	90
Net Pft (Pre Ex.)	11	(373)	76	90
EPS (Rp)	6.4	(222.8)	39.8	47.3
EPS Pre Ex. (Rp)	6.4	(222.8)	39.8	47.3
EPS Gth (%)	(93)	nm	nm	19
EPS Gth Pre Ex (%)	(90)	nm	nm	19
Diluted EPS (Rp)	6.4	(222.8)	39.8	47.3
Net DPS (Rp)	0.0	0.0	0.0	0.0
BV Per Share (Rp)	662.2	539.9	512.4	559.7
PE (X)	65.7	nm	10.6	8.9
PE Pre Ex. (X)	65.7	nm	10.6	8.9
P/Cash Flow (X)	6.2	nm	6.0	3.3
EV/EBITDA (X)	5.3	nm	5.1	4.7
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.6	0.8	0.8	0.8
Net Debt/Equity (X)	0.4	0.8	0.8	0.8
ROAE (%)	1.0	(37.1)	8.1	8.8
Earnings Rev (%):		-	(21)	(32)
Consensus EPS (Rp):		14,876.4	N/A	N/A
Other Broker Recs:		B: 5	S: 1	H: 2

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

GREAT PROXY FOR INDONESIA'S AIR TRAVEL GROWTH

Attractive valuations for long-term secular growth play. We rate Garuda Indonesia (GIAA) as a BUY for its robust long-term growth story and undemanding valuations. At 0.8x FY15 P/BV, the stock is trading at worse than -1 SD to its mean of 1.14x P/BV despite its good prospects for sustained profitability and growth. As at 1H15, GIAA had already posted a firm turnaround in its earnings, posting a half-time profit of US$27.7m vs. a loss of US$200m a year ago.

Proxy for Indonesia's firm long-term travel growth. As the world's largest archipelago and with the middle class projected to see continued strong growth, Indonesia will see strong air travel demand for many years to come.

Lower fuel costs boost earnings prospects. As the Group consumes over 11m barrels of jet fuel per annum, the recent decline in fuel price will result in significant cost savings for the carrier and help steer it to profitability in 2015 and 2016. We also expect cost savings to kick in quickly (as evidenced by 1H15 results), given that GIAA has only hedged up to 20% of its forward fuel requirements. We have assumed an all-in cost of jet fuel at US$95/bbl for 2015 and US$100/bbl for 2016.

Valuation:

We rate GIAA as a BUY. We project its earnings to rebound from a loss in 2014 to a net profit of US$76m in 2015 and US$90m in 2016. Our target price of Rp630 is based on 1.2x FY15F P/BV.

Key Risk to Our View:

Vulnerable to a stronger USD vs IDR
GIAA is vulnerable to a weaker Rupiah versus the USD as the Group reports in USD, and receives most of its revenue in Rupiah with more than half of its costs in USD.

At A Glance

Issued Capital (m shrs)	25,869
Mkt. Cap (Rpm/US$m)	10,942,557 / 809
Major Shareholders	
Republic of Indonesia (%)	69.1
Trans Airways (%)	
Free Float (%)	30.9
3m Avg. Daily Val (US$m)	0.19

ICB Industry : Consumer Services / Travel & Leisure

CRITICAL DATA POINTS TO WATCH

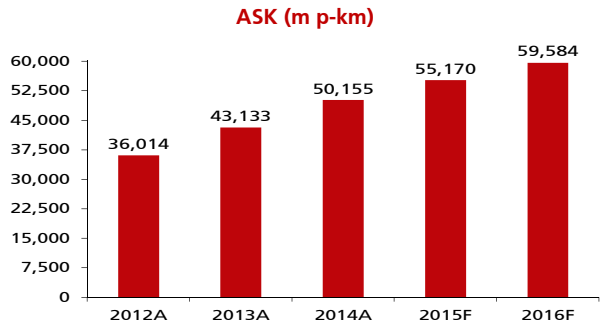
Earnings Drivers:

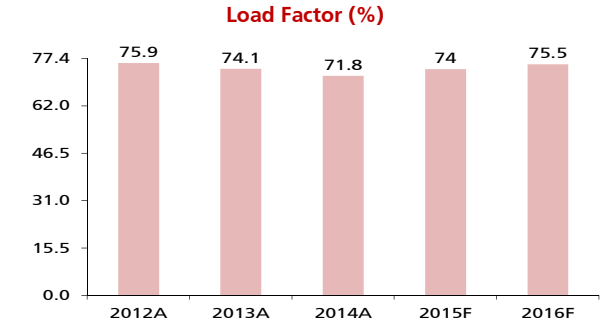
Firm capacity growth ahead. GIAA is projected to grow its capacity by c.10% and 8% in FY15 and FY16 to 55.2bn p-km and 59.6bn p-km respectively. This follows capacity growth of 19.8% in FY13 and 16.3% in FY14. In terms of fleet size, GIAA is on track to double its fleet size from 95 aircraft at the end of 2012 to 191 by end-2015. This includes Citilink, its LCC arm, growing its fleet to 50 planes and targeting 7m passengers by 2015, from 1.6m passengers in 2011.

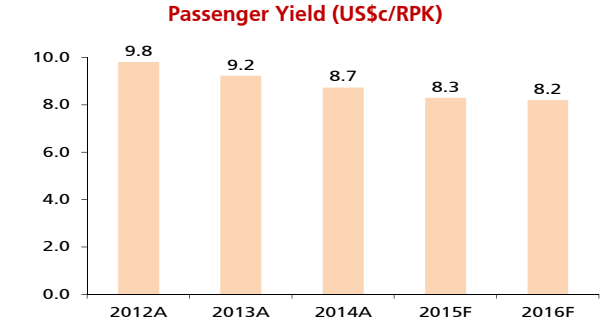
Load factors to improve in FY15 and FY16 following a dip in FY14. With moderated capacity growth of 10% and 8% projected for FY15 and FY16 respectively, compared to 19.8% in 2013 and 16.3% in 2014, and with air travel demand remaining robust, we project GIAA's load factors to firm up – from 71.8% in 2014 to 74% to 2015F and 75% in 2016F. GIAA's load factor improved 6.8ppt to 75.8% in the first six months of 2015.

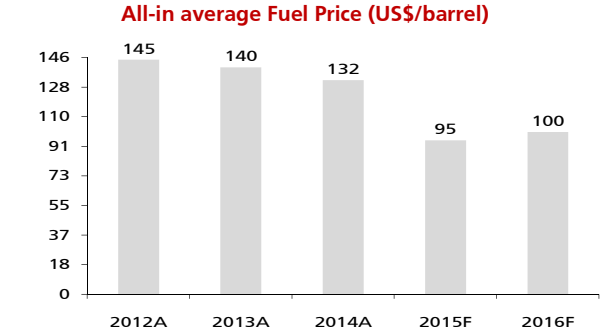
Yields under pressure from strong US$ and product mix. GIAA's average passenger yield fell by 5.9% and 5.5% in FY13 and FY14 to US 9.2cts and US 8.7cts respectively. This was mainly driven by a strengthening of the USD vs. the Rupiah (on average) by 11.7% and 13.5% over the same periods respectively. At the same time, its budget arm Citilink has also been growing its passenger carriage faster than the main brand – from 7% of overall RPK in 1Q12 to 17% in 4Q14, which would naturally lower average yield for the Group. We assume a 5% drop in GIAA's average passenger yield for 2015 and a 1% decline in 2016, against a projected 14% strengthening of the US$ in 2015, and a 4% stronger US$ in 2016.

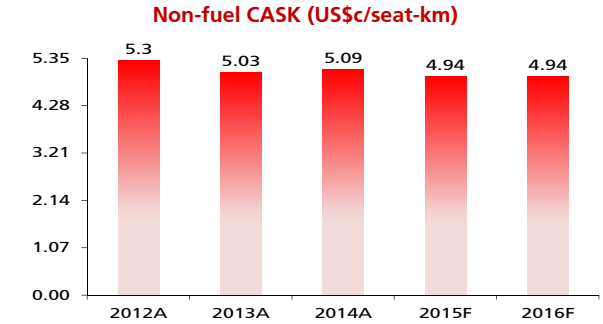
Earnings turnaround from substantial savings in fuel cost. As at 1H15, GIAA had already posted a firm turnaround in its earnings, posting a half-time profit of US$27.7m vs. a loss of US$200m a year ago. This was achieved on revenue improvement of 5.9% y-o-y to US$1.84bn, and more importantly the average price of jet fuel declined c.38% y-o-y to c.US$87.5/bbl from c.US$140/bbl a year ago. We project GIAA's earnings to rebound from a loss in 2014 (of US$373m) to a net profit of US$76m in 2015 and US$90m in 2016, driven by continued carriage growth and lower jet fuel prices.











Source: Company, DBS Bank

Balance Sheet:

Comfortable net gearing level of c.0.8x

GIAA's net gearing stood at 0.8x at the end of 2014, compared to 0.4x at the end of 2013. This was due to losses incurred of US$373m in 2014 (due to a weak operating performance from lower yields on weaker Rupiah vs. US$ and lower load factors), offset by a rights issue raising US$133m in April 2014.

Aircraft are mainly on operating leases

Of the 175 aircraft operated by GIAA at the end of April 2015, 152 of these were on operating leases and the remaining 23 either on financial leases or owned. The group is expected to add another 15 aircraft by the end of the year, which should also be mainly on operating leases.

Share Price Drivers:

The stock is currently trading at worse than -1SD

GIAA's share price has traded between 0.75x P/BV to 1.2x P/BV over the last two years, and is currently near a 3-year low at 0.8x FY15 P/BV. This is slightly below the -1SD level of 0.86x and contrasts against the mean of 1.14x P/BV.

Share price should re-rate as earnings continue to improve

With its earnings well poised to see substantial improvement, as indicated by the turnaround in its interim results (US$27.7m profit), we believe GIAA's share price should rerate towards our 12-month target price of Rp630, which is based on 1.2x FY15 P/BV, slightly above the mean of 1.14x P/BV.

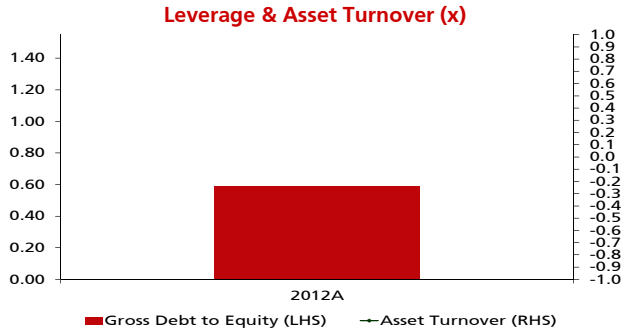
Key Risks:

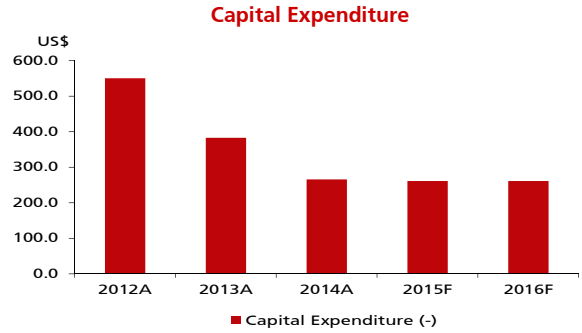
Vulnerable to demand shocks

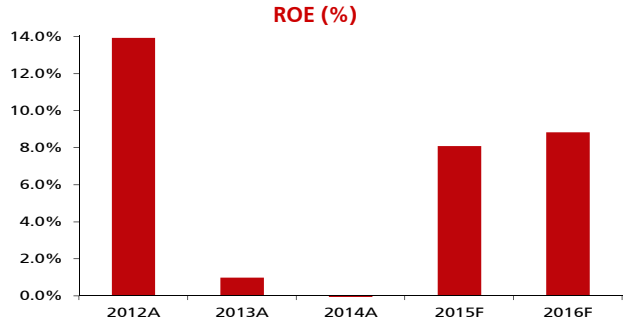
Airlines are susceptible to demand shocks, which could include pandemics, terrorist attacks as well as economic crises. In GIAA's situation, its primary exposure is to its domestic market in Indonesia, as well as the regional market of S.E. Asia.

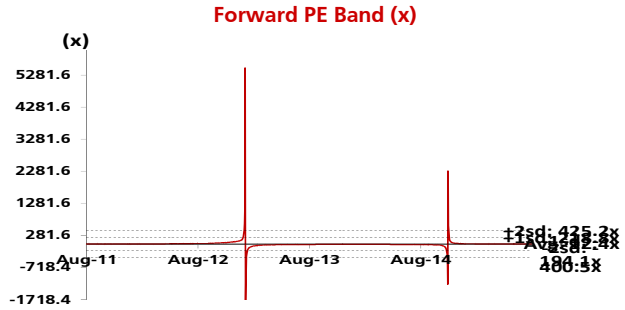
COMPANY BACKGROUND

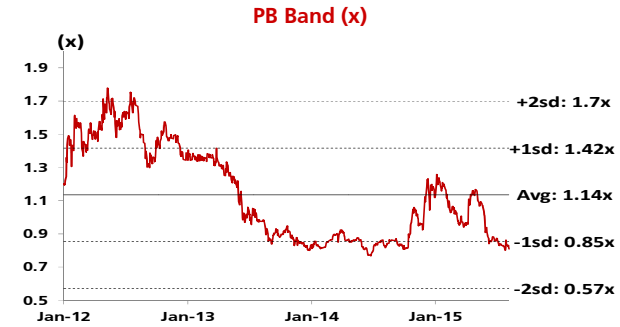
Garuda Indonesia (GIAA) is the national flag carrier of Indonesia, focusing on passenger and cargo services. It mainly operates out of the country's main airport Soekarno-Hatta International Airport in Jakarta. It is 69% owned by the Republic of Indonesia.











Source: Company, DBS Bank

Key Assumptions

FY Dec	2012A	2013A	2014A	2015F	2016F
ASK (m p-km)	36,014	43,133	50,155	55,170	59,584
Load Factor (%)	75.9	74.1	71.8	74.0	75.5
Passenger Yield	9.83	9.25	8.74	8.31	8.22
All-in average Fuel Price	145	140	132	95.0	100
Non-fuel CASK	5.30	5.03	5.09	4.94	4.94

Segmental Breakdown

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenues (US$ m)					
Passanger	2,687	2,955	3,147	3,390	3,698
Cargo	185	196	218	236	278
Excess Bagage	7	10	10	12	13
Mail and Documents	8	9	8	9	10
Others	269	216	204	210	207
Total	**3,472**	**3,759**	**3,934**	**4,245**	**4,632**

Income Statement (US$ m)

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenue	3,472	3,759	3,934	4,245	4,632
Cost of Goods Sold	(3,294)	(3,747)	(4,295)	(4,072)	(4,434)
Gross Profit	**178**	**13**	**(361)**	**172**	**199**
Other Opng (Exp)/Inc	0	0	0	0	0
Operating Profit	**178**	**13**	**(361)**	**172**	**199**
Other Non Opg (Exp)/Inc	(10)	50	(38)	1	0
Associates & JV Inc	2	0	0	0	0
Net Interest (Exp)/Inc	(18)	(49)	(61)	(70)	(77)
Exceptional Gain/(Loss)	35	0	0	0	0
Pre-tax Profit	**186**	**14**	**(461)**	**103**	**122**
Tax	(41)	0	89	(26)	(30)
Minority Interest	(1)	(3)	(1)	(1)	(1)
Preference Dividend	0	0	0	0	0
Net Profit	**145**	**11**	**(373)**	**76**	**90**
Net Profit before Except.	110	11	(373)	76	90
EBITDA	300	218	(220)	321	353
Growth					
Revenue Gth (%)	12.1	8.3	4.6	7.9	9.1
EBITDA Gth (%)	37.3	(27.3)	nm	nm	10.1
Opg Profit Gth (%)	57.3	(92.9)	nm	nm	15.3
Net Profit Gth (Pre-ex) (%)	70.2	(90.2)	(3,558.5)	(120.4)	18.7
Margins & Ratio					
Gross Margins (%)	5.1	0.3	(9.2)	4.1	4.3
Opg Profit Margin (%)	5.1	0.3	(9.2)	4.1	4.3
Net Profit Margin (%)	4.2	0.3	(9.5)	1.8	2.0
ROAE (%)	13.9	1.0	(37.1)	8.1	8.8
ROA (%)	5.6	0.4	(12.0)	2.3	2.4
ROCE (%)	7.0	0.5	(15.2)	4.9	5.0
Div Payout Ratio (%)	0.0	0.0	N/A	0.0	0.0
Net Interest Cover (x)	9.6	0.3	(5.9)	2.4	2.6

Source: Company, DBS Bank

Quarterly / Interim Income Statement (US$ m)

FY Dec	2Q2014	3Q2014	4Q2014	1Q2015	2Q2015
Revenue	931	1,063	1,132	927	913
Cost of Goods Sold	(985)	(1,094)	(1,241)	(917)	(878)
Gross Profit	**(54)**	**(30)**	**(109)**	**11**	**35**
Other Oper. (Exp)/Inc	0	0	0	0	0
Operating Profit	**(54)**	**(30)**	**(109)**	**11**	**35**
Other Non Opg (Exp)/Inc	13	14	(40)	20	12
Associates & JV Inc	0	1	0	0	0
Net Interest (Exp)/Inc	(18)	(17)	(12)	(15)	(16)
Exceptional Gain/(Loss)	(1)	4	(13)	0	0
Pre-tax Profit	**(61)**	**(29)**	**(175)**	**15**	**31**
Tax	12	25	9	(3)	(14)
Minority Interest	0	0	(3)	(1)	(1)
Net Profit	**(49)**	**(4)**	**(168)**	**11**	**16**
Net profit bef Except.	(48)	(8)	(155)	11	16
EBITDA	(15)	18	(55)	55	76
Growth					
Revenue Gth (%)	15.3	14.2	6.4	(18.1)	(1.6)
EBITDA Gth (%)	88.7	nm	nm	nm	38.5
Opg Profit Gth (%)	67.5	44.3	(259.1)	nm	228.4
Net Profit Gth (Pre-ex) (%)	(70.5)	(83.4)	1,858.6	(107.3)	43.6
Margins					
Gross Margins (%)	(5.8)	(2.8)	(9.6)	1.1	3.8
Opg Profit Margins (%)	(5.8)	(2.8)	(9.6)	1.1	3.8
Net Profit Margins (%)	(5.3)	(0.4)	(14.9)	1.2	1.8

Balance Sheet (US$ m)

FY Dec	2012A	2013A	2014A	2015F	2016F
Net Fixed Assets	827	895	923	866	803
Invts in Associates & JVs	1	1	1	1	1
Other LT Assets	1,074	1,260	1,367	1,536	1,705
Cash & ST Invts	334	480	434	514	701
Inventory	84	91	85	121	132
Debtors	136	146	121	170	185
Other Current Assets	104	119	170	170	170
Total Assets	**2,560**	**2,993**	**3,101**	**3,378**	**3,698**
ST Debt	6	45	75	75	75
Creditor	171	207	216	204	222
Other Current Liab	402	399	507	515	519
LT Debt	663	869	1,047	1,253	1,458
Other LT Liabilities	191	347	339	339	339
Shareholder's Equity	1,109	1,109	904	980	1,071
Minority Interests	20	17	13	14	14
Total Cap. & Liab.	**2,560**	**2,993**	**3,101**	**3,378**	**3,698**
Non-Cash Wkg. Capital	(249)	(249)	(347)	(257)	(253)
Net Cash/(Debt)	(334)	(434)	(688)	(814)	(832)
Debtors Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Creditors Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	NM	NM	NM	NM	NM
Current Ratio (x)	1.1	1.3	1.0	1.2	1.5
Quick Ratio (x)	0.8	1.0	0.7	0.9	1.1
Net Debt/Equity (X)	0.3	0.4	0.8	0.8	0.8
Net Debt/Equity ex MI (X)	0.3	0.4	0.8	0.8	0.8
Capex to Debt (%)	82.3	41.8	23.6	19.6	17.0
Z-Score (X)	NA	1.0	0.3	1.0	1.2

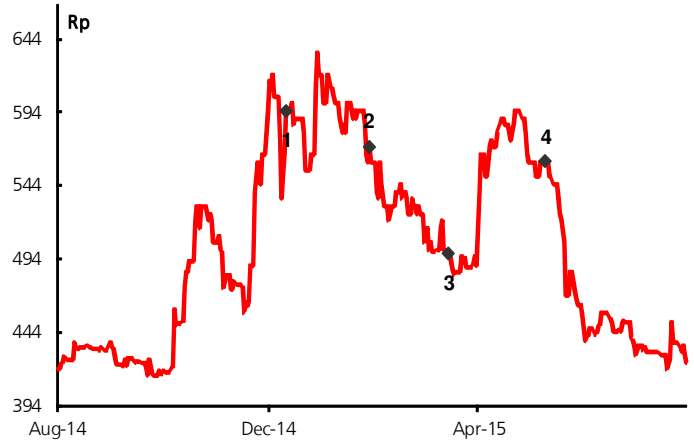
Source: Company, DBS Bank

Cash Flow Statement (US$ m)

FY Dec	2012A	2013A	2014A	2015F	2016F
Pre-Tax Profit	186	14	(461)	103	122
Dep. & Amort.	130	155	179	148	154
Tax Paid	(22)	(4)	89	89	(26)
Assoc. & JV Inc/(loss)	(2)	0	0	0	0
Chg in Wkg.Cap.	98	4	97	(97)	(9)
Other Operating CF	(26)	(55)	(13)	(107)	0
Net Operating CF	**365**	**115**	**(108)**	**135**	**242**
Capital Exp.(net)	(550)	(382)	(265)	(260)	(260)
Other Invts.(net)	(1)	(3)	(5)	0	0
Invts in Assoc. & JV	14	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	12	(24)	(44)	0	0
Net Investing CF	**(524)**	**(409)**	**(314)**	**(260)**	**(260)**
Div Paid	0	0	0	0	0
Chg in Gross Debt	152	409	205	205	205
Capital Issues	0	0	163	0	0
Other Financing CF	(76)	(13)	1	0	0
Net Financing CF	**75**	**396**	**369**	**205**	**205**
Currency Adjustments	0	1	0	0	0
Chg in Cash	(84)	103	(52)	80	187
Opg CFPS (US cts.)	1.2	0.5	(0.9)	0.9	1.0
Free CFPS (US cts.)	(0.8)	(1.2)	(1.6)	(0.5)	(0.1)

Source: Company, DBS Bank

Target Price & Ratings History



***Note** : Share price and Target price are adjusted for corporate actions.*

S.No.	Date	Closing Price	Target Price	Rating
1:	19 Dec 14	595	700	Buy
2:	05 Feb 15	570	700	Buy
3:	23 Mar 15	498	640	Buy
4:	18 May 15	560	640	Buy

Source: DBS Bank

Singapore Company Guide

Singapore Airlines

Edition 1 Version 1 | Bloomberg: SIA SP | Reuters: SIAL.SI

Refer to important disclosures at the end of this report

BUY

Last Traded Price: S$10.41 **(STI :** 3,196.66)
Price Target : S$ 12.70 (22% upside)

Potential Catalyst: Earnings recovery and execution
Where we differ: The street is generally neutral on the stock but we are more bullish on SIA's earnings prospects and share price re-rating potential

Analyst
Paul YONG CFA +65 6682 3712 paulyong@dbs.com

Price Relative

Forecasts and Valuation

FY Mar (S$ m)	2014A	2015A	2016F	2017F
Revenue	15,244	15,566	15,905	16,124
EBITDA	1,982	1,948	2,402	2,784
Pre-tax Profit	368	443	755	1,056
Net Profit	359	368	616	884
Net Pft (Pre Ex.)	398	333	616	884
EPS (S cts)	30.5	31.3	52.3	75.1
EPS Pre Ex. (S cts)	33.8	28.3	52.3	75.1
EPS Gth (%)	(5)	2	67	44
EPS Gth Pre Ex (%)	0	(16)	85	44
Diluted EPS (S cts)	29.4	30.1	50.3	72.2
Net DPS (S cts)	46.0	21.9	35.0	50.0
BV Per Share (S cts)	1,124.9	1,059.1	1,153.3	1,193.4
PE (X)	34.1	33.3	19.9	13.9
PE Pre Ex. (X)	30.8	36.7	19.9	13.9
P/Cash Flow (X)	6.0	6.6	5.8	4.6
EV/EBITDA (X)	4.2	4.5	3.8	3.3
Net Div Yield (%)	4.4	2.1	3.4	4.8
P/Book Value (X)	0.9	1.0	0.9	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	2.7	2.9	4.7	6.4
Earnings Rev (%):			-	-
Consensus EPS (S cts):			69.9	80.3
Other Broker Recs:		B: 5	S: 3	H: 11

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

BETTER EARNINGS OUTLOOK AHEAD

Maintain BUY; lower fuel costs to drive earnings growth
SIA has underperformed other airlines in 2015, as its earnings performances thus far have been less impressive than that of other airlines which have benefitted sooner from lower jet fuel prices, due to differences in hedging policies. We maintain our BUY call on SIA with 23% upside to our target price of S$12.70 as earnings improve on lower fuel costs, particularly from 3QFYMar16 onwards.

Fuel cost savings to be more substantial from 2H FY15 onwards, which should drive better earnings recovery. SIA has hedged 55.4% of its fuel requirements for 2Q16 at US$104/bbl, and c. 45% of its fuel requirements for the full year at less than US$106 per barrel, implying that fuel cost savings will be more substantial for SIA from 3Q onwards. We project SIA's earnings to nearly double to S$616m in FY16.

Earnings risk is on the upside if jet fuel stays below US$90/bbl for a sustained period
We have assumed an average all-in jet fuel price of US$90 per barrel for SIA in FY16 and FY17, compared to the current price of c. US$60/bbl. If fuel prices do not move up further for a sustained period, there should be further upside to our earnings estimates. Each US$1 savings on average jet fuel price boosts SIA's earnings, ceteris paribus, by S$50m per annum.

Valuation:

Re-rating towards our TP of S$12.70 as earnings improve
Our S$12.70 target price is based on 1.1x FY16 P/BV, which is its historical mean and reflects SIA's improved earnings outlook. With net cash of c. S$3.40 per share, we see current valuation of 0.9x FY16 P/BV as an attractive entry level for investors.

Key Risks to Our View:

Competition and pressure on yields
There continues to be intense competition on long-haul routes, especially in the US and Europe segment, where the gulf carriers are aggressive. This leads to pressure on yields, where if they decline more than expected, would impact negatively on SIA's earnings.

At A Glance

Issued Capital (m shrs)	1,170
Mkt. Cap (Sm/USm)	12,180 / 8,795
Major Shareholders	
Temasek Holdings (%)	56.2
Free Float (%)	43.8
3m Avg. Daily Val (US$m)	10.6

ICB Industry : Consumer Services / Travel & Leisure

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

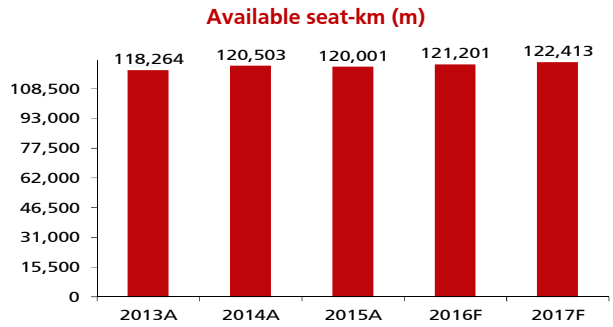
Modest growth for SIA's flagship brand in the medium term. SIA's flagship passenger brand has grown its capacity by an average of just 3.3% in the last four years given the global economic malaise over the same period. With outlook still remaining fairly mixed, we expect growth for this segment to continue to be relatively muted.

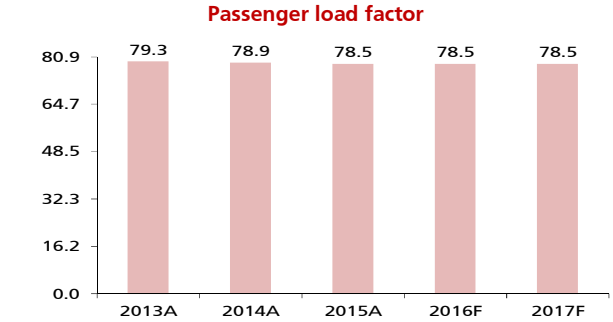
Aside from its mature flagship brand, SIA has been investing and growing other airline brands within its portfolio. These include 1) its wholly owned regional arm Silkair, which has grown its passenger carriage by over 50% in the last 4 years, 2) low cost medium-and long-haul carrier Scoot, which was launched in 2012, 3) taking a majority stake in LCC Tigerair, which has the second largest market (8%) share out of Singapore , and 4) investments in Virgin Australia and Vistara, a newly launched (joint venture with Tata Sons) full service airline in India.

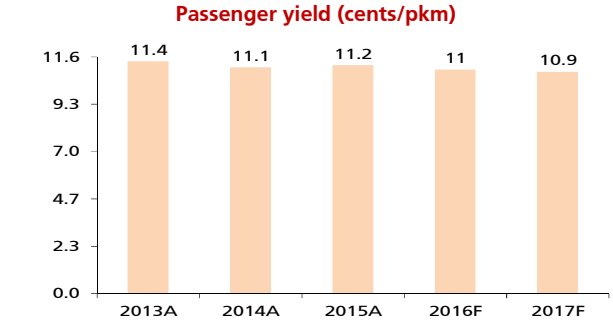
Earnings from the flagship brand typically account for at least two-thirds of Group EBIT. Nonetheless, until investments into other airline endeavours bear more fruit, SIA's flagship brand will continue to be its main profit source. Over the last 4 years, in which SIA Cargo was loss-making in the last 3 years, SIA's flagship brand accounted for 61-99% of Group EBIT. Meanwhile, SIA Engineering provided an EBIT of S$84m in FY15.

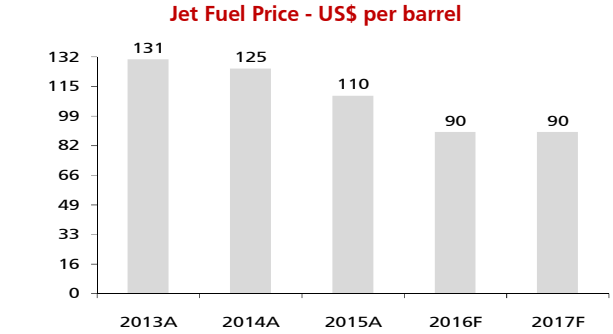
Stable passenger load factors and yields. With SIA managing its capacity to better match demand, which is expected to remain fairly tepid for full service medium and long haul travel, we project load factors to stay fairly stable at 78.5% for the next two years (compared to 77.4% to 79.3% over the last 4 years). Meanwhile, yields are expected to see declines of 2% and 1% in FY16 and FY17 respectively, given intense competition on long-haul routes in the US and Europe segments.

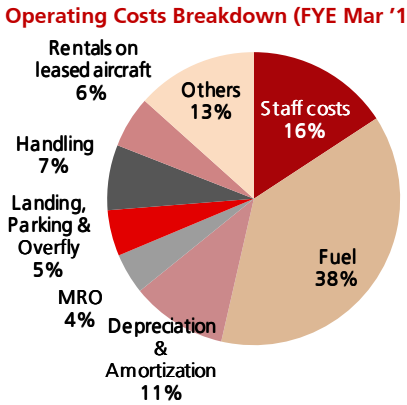
Lower jet fuel prices hold the key to earnings recovery. Fuel costs made up 35%-41% of SIA's total operating costs in the last few years, but that percentage is expected to reduce following the decline in oil prices since 2H14. SIA Group is projected to consume over 40m barrels of jet fuel per year and with jet fuel currently at US$60 per barrel versus nearly US$120 per barrel just in August 2014, the Group will reap substantial benefits from lower fuel costs, though this would be offset partially by the stronger US$ and hedging losses. Assuming SIA's all-in jet fuel price averages US$90 per barrel over the next 2 years, we estimate that SIA's earnings will nearly double to S$616m in FY16 and grow to SS884m in FY17. This translates to an ROE of 4.7% and 6.4% for FY16 and FY17 respectively – a vast improvement from less than 3% in the last two financial years.











Source: Company, DBS Bank

Balance Sheet:

Capital intensive business, with over 50% of assets in aircraft and related equipment. At the end of FY15, SIA had total assets of S$22.6bn, of which S$13bn was net fixed assets (largely aircraft and related equipment), and nearly S$4.9bn in cash. On average, about 35-40% of SIA's aircraft are on operating leases, and its fleet of 142 owned and leased aircraft has an average age of 7.4 years.

Firm net cash position to fund growth and withstand industry volatility. With total debt of just under S$1bn, SIA's net cash position stands at nearly S$4bn or c. S$3.40 per share (> 30% of current share price of S$10.42). Its strong balance sheet provides a firm platform for SIA to grow its business e.g. its joint venture in India, potential M&A, organic growth, or to weather any industry volatility (although SIA has never reported losses on a full year basis since its listing).

Share Price Drivers:

Profitability and outlook to drive share price. Historically, SIA has traded from a low of 0.7x P/BV (global financial crisis and SARS) to a high of 1.4x P/BV (when group earnings reached S$1.1bn or 9.4% ROE), and mostly in tandem with the Group's profitability and earnings outlook. Over the last 7 years, SIA has traded at an average of 1.1x P/BV.

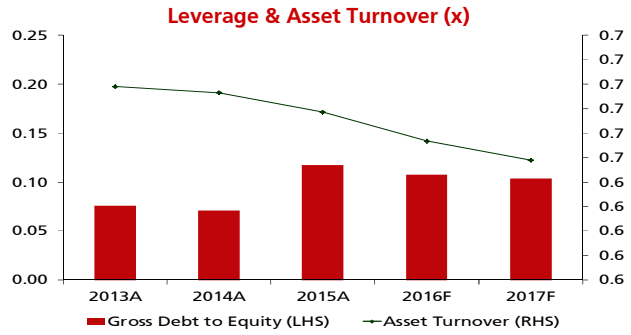
Maintain BUY, TP of S$12.70 based on 1.1x FY16 P/BV. SIA is currently trading at 0.9x P/BV, which is below its historical mean of 1.1x P/BV. With an improving earnings (and ROE) outlook for the Group, which is largely driven by lower jet fuel prices, we see SIA's share price rerating towards our target price of S$12.70, based on 1.1x P/BV.

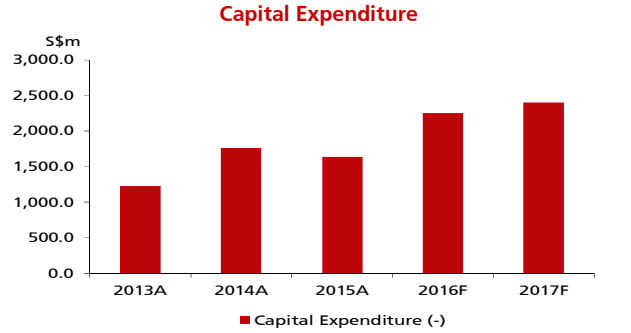
Other Risks:

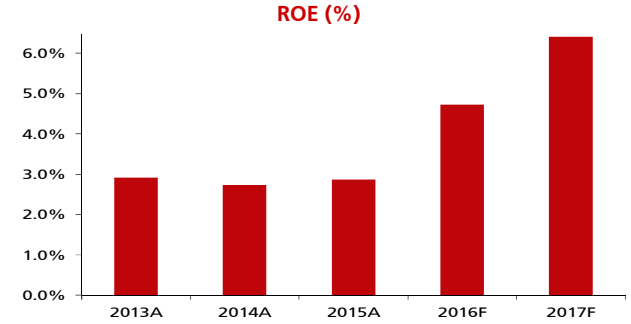
Vulnerable to demand shocks and fuel price increase
SIA is susceptible to demand shocks such as economic outlook or pandemics e.g. if the MERS situation hits Singapore like SARS did back in 2003. However, share price did rebounded quickly even during SARS once the situation was under control. Fuel costs account for over a third of SIA's operating costs and should oil prices spike sharply, it would impact on earnings.

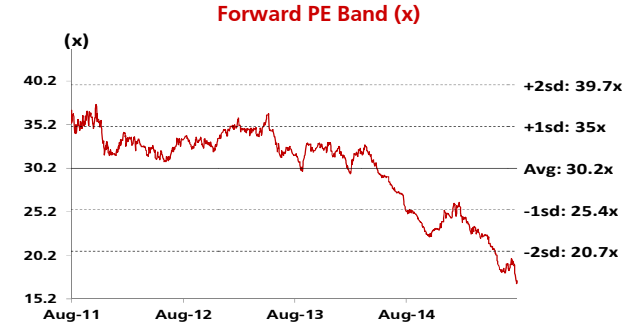
COMPANY BACKGROUND

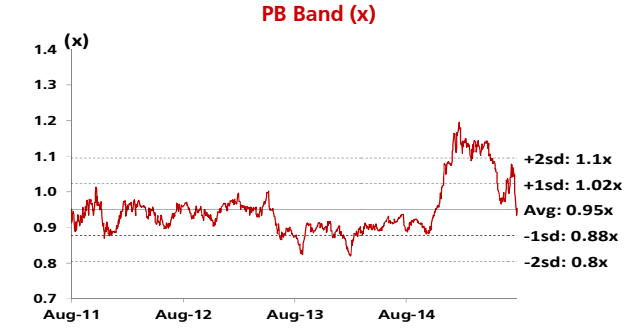
Singapore Airlines is a leading global airline group that is based out of Singapore. In the passenger service segment, SIA operates its flagship Singapore Airlines product, and also has Silkair, Scoot, and SGX-listed Tigerair as subsidiaries. SIA also has an associate stake in Virgin Australia. Other business segments include air cargo (SIA Cargo) and SGX-listed SIA Engineering, which is involved in aircraft maintenance and repair. SIA flies to over 60 destinations on six continents and is amongst the top 20 airlines in the world by Revenue Passenger Kilometres.











Source: Company, DBS Bank

Key Assumptions

FY Mar	2013A	2014A	2015A	2016F	2017F
Available seat-km (m)	118,264.4	120,502.8	120,000.8	121,200.8	122,412.8
Passenger load factor	79.3	78.9	78.5	78.5	78.5
Passenger yield	11.4	11.1	11.2	11.0	10.9
Jet Fuel Price - US$ per	130.5	125.0	110.0	90.0	90.0
US$/S$ exchange rate	1.2	1.3	1.3	1.4	1.4

Segmental Breakdown

FY Mar	2013A	2014A	2015A	2016F	2017F
Revenues (S$ m)					
Airline Operations	14,585	14,693	15,091	15,413	15,616
SIA Engineering	1,147	1,178	1,120	1,163	1,205
Others	127	118	112	112	112
Elimination	(760)	(745)	(756)	(783)	(808)
Total	15,098	15,244	15,566	15,905	16,124
EBIT (S$ m)					
Airline Operations	95	126	326	594	874
SIA Engineering	128	116	84	97	102
Others	5	14	0	0	0
Elimination	2	4	0	0	0
Total	228	255	410	691	976
EBIT Margins (%)					
Airline Operations	0.7	0.9	2.2	3.9	5.6
SIA Engineering	11.2	9.8	7.5	8.3	8.5
Others	3.6	12.1	0.0	0.0	0.0
Total	1.5	1.7	2.6	4.3	6.1

Income Statement (S$ m)

FY Mar	2013A	2014A	2015A	2016F	2017F
Revenue	15,098	15,244	15,566	15,905	16,124
Cost of Goods Sold	(14,869)	(14,985)	(15,156)	(15,214)	(15,148)
Gross Profit	229	259	409	691	976
Other Opng (Exp)/Inc	0	0	0	0	0
Operating Profit	229	259	409	691	976
Other Non Opg (Exp)/Inc	95	73	51	0	0
Associates & JV Inc	145	49	(77)	60	80
Net Interest (Exp)/Inc	20	25	25	4	1
Exceptional Gain/(Loss)	(20)	(38)	35	0	0
Pre-tax Profit	470	368	443	755	1,056
Tax	(28)	57	(36)	(76)	(106)
Minority Interest	(63)	(65)	(39)	(64)	(67)
Preference Dividend	0	0	0	0	0
Net Profit	379	359	368	616	884
Net Profit before Except.	399	398	333	616	884
EBITDA	2,082	1,982	1,948	2,402	2,784
Growth					
Revenue Gth (%)	1.6	1.0	2.1	2.2	1.4
EBITDA Gth (%)	(0.4)	(4.8)	(1.7)	23.3	15.9
Opg Profit Gth (%)	(19.8)	13.1	57.9	68.9	41.1
Net Profit Gth (Pre-ex) (%)	16.8	(0.3)	(16.2)	84.6	43.6
Margins & Ratio					
Gross Margins (%)	1.5	1.7	2.6	4.3	6.1
Opg Profit Margin (%)	1.5	1.7	2.6	4.3	6.1
Net Profit Margin (%)	2.5	2.4	2.4	3.9	5.5
ROAE (%)	2.9	2.7	2.9	4.7	6.4
ROA (%)	1.7	1.6	1.6	2.5	3.6
ROCE (%)	1.3	1.5	2.2	3.5	4.7
Div Payout Ratio (%)	71.4	150.6	69.9	66.9	66.6
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$ m)

FY Mar	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016
Revenue	3,682	3,905	4,099	3,880	3,733
Cost of Goods Sold	(3,643)	(3,773)	(3,952)	(3,788)	(3,622)
Gross Profit	**40**	**132**	**146**	**92**	**111**
Other Oper. (Exp)/Inc	0	0	0	0	0
Operating Profit	**40**	**132**	**146**	**92**	**111**
Other Non Opg (Exp)/Inc	16	44	(1)	(21)	6
Associates & JV Inc	(3)	(87)	24	(11)	(8)
Net Interest (Exp)/Inc	8	8	15	9	17
Exceptional Gain/(Loss)	0	(10)	56	(12)	0
Pre-tax Profit	**61**	**86**	**240**	**57**	**127**
Tax	(12)	15	(25)	(14)	(25)
Minority Interest	(14)	(10)	(12)	(3)	(10)
Net Profit	**35**	**91**	**203**	**40**	**90**
Net profit bef Except.	35	101	146	51	90
EBITDA	430	457	560	490	516
Growth					
Revenue Gth (%)	1.5	6.1	5.0	(5.3)	(3.8)
EBITDA Gth (%)	28.2	6.3	22.5	(12.5)	5.4
Opg Profit Gth (%)	nm	233.4	11.1	(37.2)	21.2
Net Profit Gth (Pre-ex) (%)	379.2	193.6	44.4	(65.0)	76.2
Margins					
Gross Margins (%)	1.1	3.4	3.6	2.4	3.0
Opg Profit Margins (%)	1.1	3.4	3.6	2.4	3.0
Net Profit Margins (%)	0.9	2.3	4.9	1.0	2.4

Balance Sheet (S$ m)

FY Mar	2013A	2014A	2015A	2016F	2017F
Net Fixed Assets	13,098	13,027	13,523	14,175	14,898
Invts in Associates & JVs	675	856	1,090	975	880
Other LT Assets	1,155	1,449	1,843	1,843	1,843
Cash & ST Invts	5,409	5,171	5,423	5,189	5,193
Inventory	275	243	202	254	257
Debtors	1,633	1,655	1,487	1,727	1,750
Other Current Assets	182	242	353	353	353
Total Assets	**22,428**	**22,643**	**23,921**	**24,516**	**25,174**
ST Debt	74	60	147	147	147
Creditor	3,056	2,978	2,907	3,107	3,150
Other Current Liab	2,272	2,353	3,729	2,924	2,975
LT Debt	945	904	1,370	1,370	1,370
Other LT Liabilities	2,680	2,772	2,839	2,865	2,890
Shareholder's Equity	13,090	13,237	12,464	13,572	14,044
Minority Interests	313	337	467	531	598
Total Cap. & Liab.	**22,428**	**22,643**	**23,921**	**24,516**	**25,174**
Non-Cash Wkg. Capital	(3,238)	(3,192)	(4,593)	(3,698)	(3,764)
Net Cash/(Debt)	4,391	4,207	3,906	3,672	3,676
Debtors Turn (avg days)	36.7	39.4	36.8	36.9	39.4
Creditors Turn (avg days)	81.8	82.3	79.0	80.9	85.1
Inventory Turn (avg days)	8.0	7.1	6.0	6.1	6.9
Asset Turnover (x)	0.7	0.7	0.7	0.7	0.6
Current Ratio (x)	1.4	1.4	1.1	1.2	1.2
Quick Ratio (x)	1.3	1.3	1.0	1.1	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	120.6	183.1	107.7	148.3	158.2
Z-Score (X)	2.4	2.4	2.1	2.3	2.3

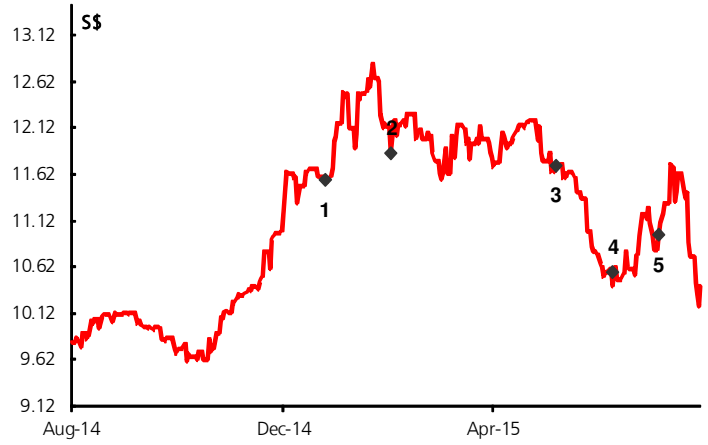
Source: Company, DBS Bank

Cash Flow Statement (S$ m)

FY Mar	2013A	2014A	2015A	2016F	2017F
Pre-Tax Profit	470	368	443	755	1,056
Dep. & Amort.	1,612	1,601	1,565	1,624	1,703
Tax Paid	(193)	(65)	(116)	(162)	(76)
Assoc. & JV Inc/(loss)	(145)	(49)	77	(60)	(80)
Chg in Wkg.Cap.	16	178	(117)	(59)	36
Other Operating CF	0	0	0	0	1
Net Operating CF	**1,760**	**2,033**	**1,851**	**2,099**	**2,641**
Capital Exp.(net)	(1,228)	(1,766)	(1,633)	(2,250)	(2,400)
Other Invts.(net)	(138)	(458)	(108)	0	0
Invts in Assoc. & JV	5	179	(47)	0	0
Div from Assoc & JV	140	171	114	175	175
Other Investing CF	74	50	69	0	0
Net Investing CF	**(1,146)**	**(1,823)**	**(1,605)**	**(2,075)**	**(2,225)**
Div Paid	(244)	(375)	(553)	(257)	(412)
Chg in Gross Debt	(61)	(52)	418	0	0
Capital Issues	1	43	46	0	0
Other Financing CF	13	15	(45)	1	2
Net Financing CF	**(304)**	**(399)**	**(96)**	**(257)**	**(412)**
Currency Adjustments	(13)	(15)	45	0	0
Chg in Cash	297	(204)	196	(233)	4
Opg CFPS (S cts)	148.2	157.6	167.3	183.3	221.3
Free CFPS (S cts)	45.2	22.7	18.5	(12.9)	20.4

Source: Company, DBS Bank

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date	Closing Price	Target Price	Rating
1:	02 Jan 15	11.55	12.90	Buy
2:	09 Feb 15	11.84	12.90	Buy
3:	15 May 15	11.71	12.80	Buy
4:	17 Jun 15	10.56	12.80	Buy
5:	13 Jul 15	10.96	12.80	Buy

Source: DBS Bank

Thailand Company Guide

Thai Airways

Edition 1 Version 1 | Bloomberg: THAI TB | Reuters: THAI.BK

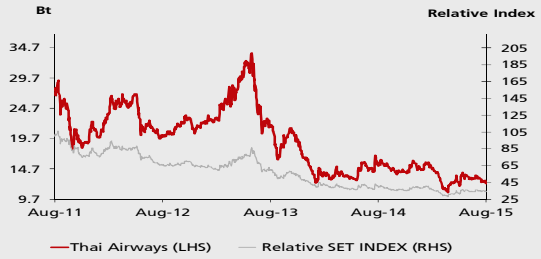
HOLD

Last Traded Price: Bt12.30 (**SET :** 1,428.79)
Price Target : Bt12.35 (0% upside) (Prev Bt9.00)

Potential Catalyst: Fuel cost savings, stronger travel demand driven by recovering inbound tourism
Where we differ: We are projecting higher earnings on the back of substantial fuel savings amid stable topline; but the stock is rated HOLD because of risk of of a dilutive equity fund-raising exercise.

Analyst
TAN Kee Hoong +603 2604 3913 keehoong@alliancedbs.com

Price Relative



Forecasts and Valuation

FY Dec (Bt m)	2014A	2015F	2016F	2017F
Revenue	188,368	189,663	196,826	199,633
EBITDA	3,283	31,662	33,198	35,507
Pre-tax Profit	(16,737)	(9,609)	6,784	10,142
Net Profit	(15,612)	(8,975)	6,270	9,393
Net Pft (Pre Ex.)	(23,164)	4,763	6,270	9,393
EPS (Bt)	(10.61)	(4.11)	2.87	4.30
EPS Pre Ex. (Bt)	(10.61)	2.18	2.87	4.30
EPS Gth (%)	(376)	nm	32	50
EPS Gth Pre Ex (%)	(376)	nm	32	50
Diluted EPS (Bt)	(7.15)	(4.11)	2.87	4.30
Net DPS (Bt)	0.00	0.00	0.00	0.00
BV Per Share (Bt)	18.88	14.77	17.64	21.95
PE (X)	nm	5.6	4.3	2.9
PE Pre Ex. (X)	nm	5.6	4.3	2.9
P/Cash Flow (X)	4.5	1.4	1.0	0.9
EV/EBITDA (X)	59.5	5.9	4.7	3.6
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.7	0.8	0.7	0.6
Net Debt/Equity (X)	4.1	5.0	3.3	2.1
ROAE (%)	(31.8)	(24.4)	17.7	21.7
Earnings Rev (%):		N/M	N/M	N/M
Consensus EPS (Bt):		(0.99)	1.07	1.83
Other Broker Recs:		B: 6	S: 10	H: 6

Source of all data: Company, DBS Vickers, Bloomberg Finance L.P

IMPROVING EARNINGS PROSPECT

Better earnings prospect, but fund-raising risk an overhang. We rate Thai Airways as HOLD with a Bt12.35 TP. While we are encouraged by the airline's improving earnings prospect, we are wary that Thai Airways may need to undertake a potentially dilutive equity fund-raising exercise given its high net gearing of 3.5x (at 1Q15).

Restructuring its way out of losses. Thai Airways has cut loss-making routes, and is making the necessary adjustments to match its network to market demand. As a result, it had decommissioned 11 aircraft in1Q15 and will be disposing the aircraft. This will help to ease pressure on cash flow and costs. Providing a conducive backdrop for the restructuring efforts are recovering tourist arrivals in Thailand and significantly cheaper fuel.

Stronger travel demand and cheaper fuel to drive FY15F earnings. We expect the recovering inbound tourism market to boost Thai Airway's overall load factor by 6ppts to 68.5% in FY15F. Also, we project the group will book fuel cost savings of Bt23.4bn this year (22% reduction in unit fuel cost), because of lower fuel price. Premised on these, we expect the group to book Bt4,763m core net profit in FY15F.

Valuation:

Our Bt12.35 TP is based on 0.7x FY16F P/BV (-1SD of 5-year mean). Despite improving earnings prospect, we expect share price to consolidate at this level, and only rerate when the risk of a dilutive equity fund-raising exercise has subsided.

Key Risks to Our View:

Restructuring risks. Thai Airways will ground aircraft and implement voluntary retirement scheme as part of its restructuring. We have booked in Bt11.8bn and Bt5.5bn in impairments and compensation costs in our forecasts; but these may exceed our forecasts. Also, Thai Airways may have to raise equity finance, given its high net gearing. If so, the exercise would be dilutive as share price is currently below book value.

At A Glance

Issued Capital (m shrs)	2,183
Mkt. Cap (Btm/US$m)	26,848 / 764
Major Shareholders	
Ministry of Finance (%)	51.0
Vayupak Fund (%)	15.1
Thai NVDR (%)	3.2
Free Float (%)	27.4
3m Avg. Daily Val (US$m)	1.2

ICB Industry : Consumer Services / Travel & Leisure

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

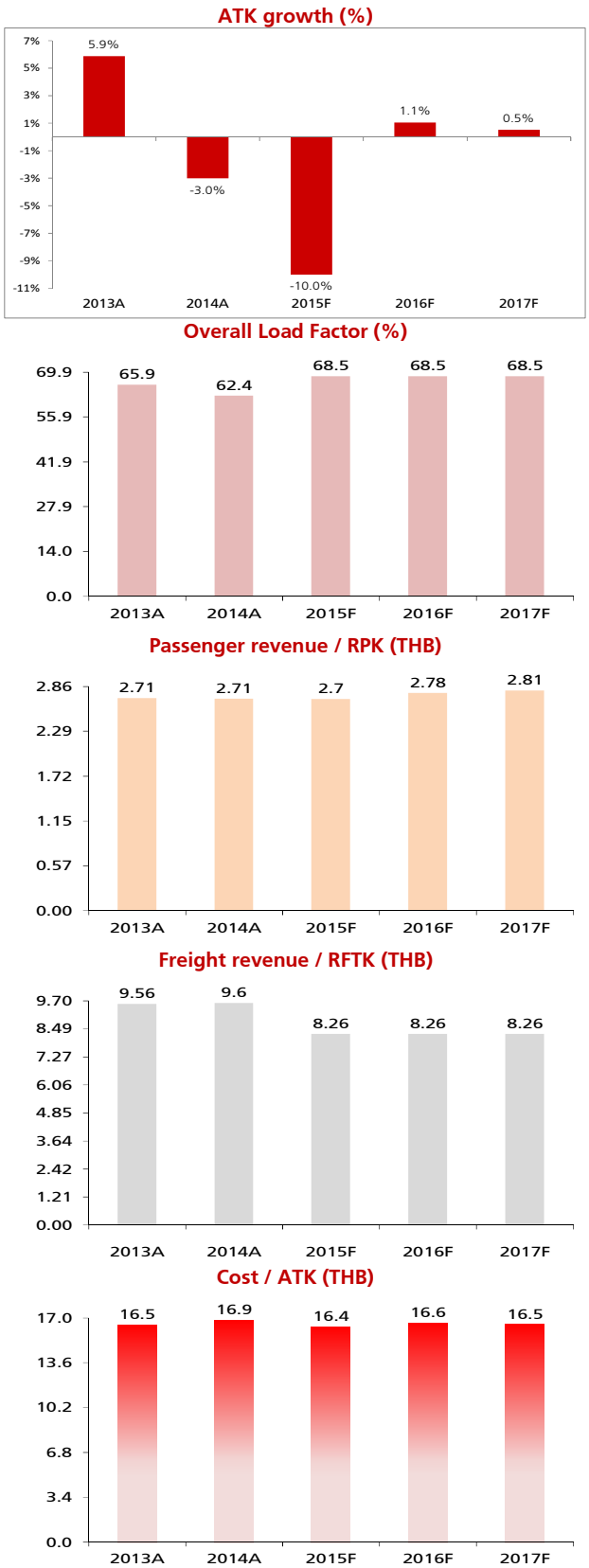
Downsizing fleet. Thai Airways has reduced its active fleet to 93 aircraft in 1Q15 (vs 102 aircraft in 4Q14) under the "Transformation Plan" to cut loss-making routes and adjust its network to match market demand. It plans to decommission another 15 aircraft over 2Q15-4Q18, and receive 20 aircraft in the same period. Premised on this, we forecast Thai Airways' ATK capacity will drop by 10% in FY15F, before growing by c.1% p.a. in FY16/17F.

Recovering inbound tourism to lift load factor. Passenger load factor rose to 73% in 1H15 (+6ppts y-o-y), and is set to stay strong driven by a vibrant inbound tourism market. Thailand's tourist visitations fell by 5% last year due to the following: (1) implementation of martial law nationwide (leading many countries to issue travel warnings for Thailand), and (2) economic recessions at key origin nations (i.e. EU, Russia). But, most countries have since rescinded the travel advisories, and tourists are starting to return to Thailand, helped by various tourism promotional measures. Driven by this, we expect overall load factor (passenger + freight) to rise by 6ppts to 68.5% in FY15F, and stay flat in FY16/17F.

Expect stronger yields on weaker Baht. Passenger yield fell by 3% y-o-y in 1Q15. But we expect yields to regain ground in the coming quarters and stay flattish in FY15F, given the weaker Bt. This is because a weaker Baht (+6.5% since early-2015) would increase yields, as 65% of group revenue is in foreign currencies (USD: 46%, EUR: 11%, JPY: 8%). Thereafter, we forecast passenger yields will grow 3%/1% in FY16/17F, premised on continuing Baht weakness in FY16F (-3%) and a vibrant inbound tourism market.

Freight yields to be hit by reduction of fuel surcharge. Meanwhile, we expect freight yields to drop by 14% in FY15F after the removal of fuel surcharge. We imputed flat freight yields for FY16-17F as we cannot see any catalysts for freight demand given the regional economic slowdown led by China, and the expiry of the Generalised System of Preferences (GSP) scheme for Thailand-made products.

Cost savings driven by cheaper fuel price. We expect fuel cost/ATK to drop by 22% in FY15F, as Thai Airways has hedged its FY15 fuel requirement at USD93/bbl (-24% y-o-y). However, cost/ATK would likely drop by only 3% as the fuel cost savings would be mitigated by higher asset cost/ATK (+13% y-o-y) and higher other OPEX/ATK (+5% y-o-y), as it grounds more aircraft. Thereafter, we expect cost/ATK to grow 2% in FY16F on weaker Baht, and fall by 1% in FY17F on lower asset costs (from disposal of excess aircraft).



Source: Company, DBS Vickers

Balance Sheet:

Net gearing trending down. We believe Thai Airways' net gearing could peak at 5.0x in FY15F (vs 4.1x in FY14). Thereafter, we forecast net gearing will trend down to 3.3x/2.1x in FY16/17F, driven by: (1) rising operating cash flow amid improving profitability, and (2) disposal of decommissioned aircraft (32 aircraft at end-1Q15). But, liquidity is no longer alarming with EBITDAR cover (i.e. EBITDAR divided by lease and interest expense) expected to recover to 1.4-1.6x in FY15-17F from 0.4x in FY14.

Share Price Drivers:

Successful execution of Transformation Plan. Thai Airways is restructuring its operations. It has cut loss-making routes, and is currently adjusting its network to match market demand. The excess aircraft will be decommissioned and disposed, which will help to ease pressure on costs. Thailand's recovering inbound tourism market, coupled with cheaper fuel, have created a conducive backdrop for the restructuring. We expect the successful implementation of the "Transformation Plan" to re-rate the stock.

Boost from cheap fuel. Assuming USD93/bbl fuel cost, Thai Airways would register Bt23.4bn fuel cost savings in FY15F, which would balance out the group's core net loss of Bt23.1bn in FY14. We believe the street has not fully accounted for this, which could eventually lead to a material upgrade in consensus earnings for the stock.

Key Risks:

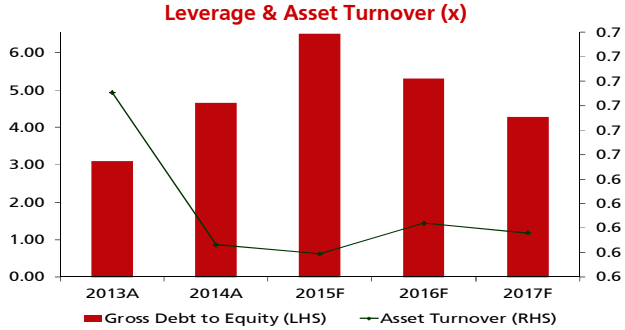
Forex risks. With 47% of its debts denominated in EUR, a stronger EUR vis-à-vis the Baht would hurt Thai Airways, as it will lead to greater debt burden for the group. Also, a stronger USD would negatively impact operating results as 62% of its expense is in USD. But, this risk is mitigated to a certain extent as 46% of its revenue is also in USD.

Restructuring expense may be higher than expected. Thai Airways will ground aircraft and implement voluntary retirement scheme as part of its restructuring. We have booked in Bt11.8bn and Bt5.5bn in impairments and compensation costs in our forecasts; but these costs may exceed our forecasts. Also, Thai Airways may have to raise equity finance, given its high net gearing. If so, the exercise would be dilutive as the share price is currently below book value.

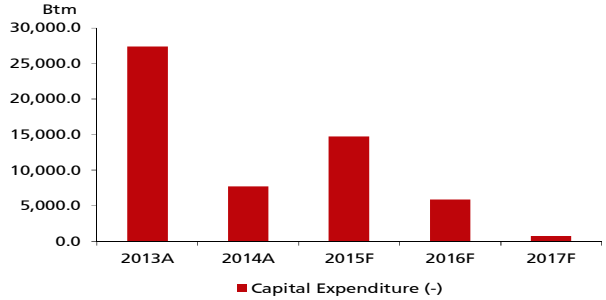
COMPANY BACKGROUND

Thai Airways is the national full service carrier of the Kingdom of Thailand. It also has 39.2% stake in Nok Airlines (low cost-carrier) as well as stakes in various other ancillary businesses i.e. airport hotels, in-flight catering, etc.

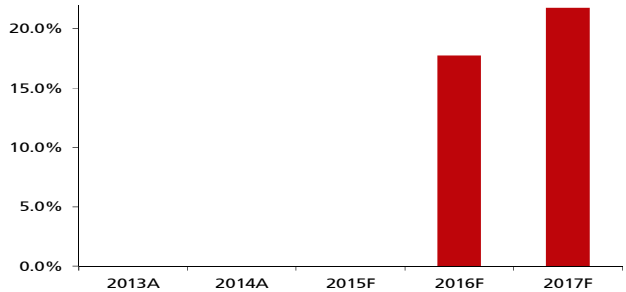
Leverage & Asset Turnover (x)



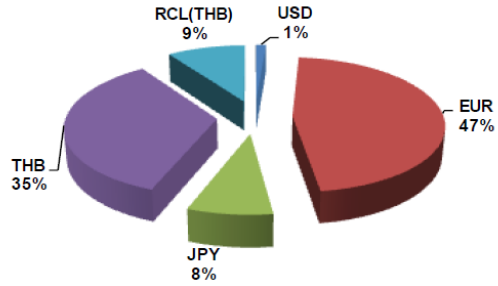
Capital Expenditure



ROE (%)



Currency exposure of Thai Airways' total borrowings



PB Band (x)

Source: Company, DBS Vickers

Key Assumptions

FY Dec	2013A	2014A	2015F	2016F	2017F
ATK growth (%)	5.86	(3.00)	(10.01)	1.05	0.52
Overall Load Factor (%)	65.9	62.4	68.5	68.5	68.5
Passenger revenue / RPK	2.71	2.71	2.70	2.78	2.81
Freight revenue / RFTK	9.56	9.60	8.26	8.26	8.26
Cost / ATK (Bt)	16.5	16.9	16.4	16.6	16.5

Income Statement (Bt m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	206,336	188,368	189,663	196,826	199,633
Other Opng (Exp)/Inc	(206,348)	(205,696)	(179,688)	(184,547)	(184,520)
Operating Profit	**(11)**	**(17,329)**	**9,975**	**12,279**	**15,113**
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	836	77	415	571	591
Net Interest (Exp)/Inc	(5,542)	(5,793)	(6,260)	(6,067)	(5,562)
Exceptional Gain/(Loss)	(8,213)	6,307	(13,739)	0	0
Pre-tax Profit	**(12,929)**	**(16,737)**	**(9,609)**	**6,784**	**10,142**
Tax	929	1,165	673	(475)	(710)
Minority Interest	(47)	(39)	(39)	(39)	(39)
Preference Dividend	0	0	0	0	0
Net Profit	**(12,047)**	**(15,612)**	**(8,975)**	**6,270**	**9,393**
Net Profit before Except.	(4,864)	(23,164)	4,763	6,270	9,393
EBITDA	20,850	3,283	31,662	33,198	35,507
Growth					
Revenue Gth (%)	(1.3)	(8.7)	0.7	3.8	1.4
EBITDA Gth (%)	(27.6)	(84.3)	864.4	4.9	7.0
Opg Profit Gth (%)	nm	(153,049.5)	nm	23.1	23.1
Net Profit Gth (Pre-ex) (%)	(289.6)	376.2	(120.6)	31.6	49.8
Margins & Ratio					
Opg Profit Margin (%)	0.0	(9.2)	5.3	6.2	7.6
Net Profit Margin (%)	(5.8)	(8.3)	(4.7)	3.2	4.7
ROAE (%)	(19.2)	(31.8)	(24.4)	17.7	21.7
ROA (%)	(3.9)	(5.1)	(2.9)	2.0	2.9
ROCE (%)	0.0	(6.9)	3.9	4.4	5.3
Div Payout Ratio (%)	N/A	N/A	N/A	0.0	0.0
Net Interest Cover (x)	0.0	(3.0)	1.6	2.0	2.7

Source: Company, DBS Vickers

Quarterly / Interim Income Statement (Bt m)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	49,533	42,767	45,826	50,242	51,216
Cost of Goods Sold	0	0	0	0	0
Gross Profit	**49,533**	**42,767**	**45,826**	**50,242**	**51,216**
Other Oper. (Exp)/Inc	(51,631)	(48,833)	(49,561)	(55,672)	(45,612)
Operating Profit	**(2,098)**	**(6,066)**	**(3,735)**	**(5,430)**	**5,604**
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	158	(48)	(105)	72	136
Net Interest (Exp)/Inc	(1,351)	(1,590)	(1,403)	(1,448)	(1,327)
Exceptional Gain/(Loss)	910	(201)	6,165	(566)	(2,148)
Pre-tax Profit	**(2,381)**	**(7,905)**	**922**	**(7,373)**	**2,265**
Tax	(238)	251	175	977	2,284
Minority Interest	(15)	(8)	(11)	(6)	(8)
Net Profit	**(2,634)**	**(7,662)**	**1,086**	**(6,401)**	**4,541**
Net profit bef Except.	(3,329)	(7,727)	(5,276)	(6,832)	4,389
EBITDA	3,166	(962)	1,306	(227)	10,833
Growth					
Revenue Gth (%)	(5.7)	(13.7)	7.2	9.6	1.9
EBITDA Gth (%)	(37.7)	nm	nm	nm	nm
Opg Profit Gth (%)	(658.3)	(189.2)	38.4	(45.4)	nm
Net Profit Gth (Pre-ex) (%)	115.2	132.1	(31.7)	29.5	(164.2)
Margins					
Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	(4.2)	(14.2)	(8.2)	(10.8)	10.9
Net Profit Margins (%)	(5.3)	(17.9)	2.4	(12.7)	8.9

Balance Sheet (Bt m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	231,449	224,021	205,708	179,509	160,407
Invts in Associates & JVs	4,982	4,771	5,186	5,757	6,348
Other LT Assets	12,169	14,190	14,190	14,190	14,190
Cash & ST Invts	11,857	23,467	49,570	76,954	105,385
Inventory	7,521	6,394	5,823	6,043	6,129
Debtors	22,399	21,666	21,815	22,639	22,962
Other Current Assets	16,707	12,757	12,757	12,757	12,757
Total Assets	**307,085**	**307,267**	**315,050**	**317,849**	**328,178**
ST Debt	24,800	45,113	45,113	45,113	45,113
Creditor	6,186	13,252	11,569	11,878	11,877
Other Current Liab	51,382	43,744	43,900	44,764	45,102
LT Debt	151,550	146,875	165,120	160,439	160,999
Other LT Liabilities	16,248	16,987	16,987	16,987	16,987
Shareholder's Equity	56,830	41,215	32,240	38,509	47,903
Minority Interests	89	81	120	159	198
Total Cap. & Liab.	**307,085**	**307,267**	**315,050**	**317,849**	**328,178**
Non-Cash Wkg. Capital	(10,941)	(16,178)	(15,074)	(15,203)	(15,130)
Net Cash/(Debt)	(164,492)	(168,521)	(160,663)	(128,597)	(100,726)
Debtors Turn (avg days)	41.6	42.7	41.8	41.2	41.7
Creditors Turn (avg days)	(125.0)	(172.8)	(212.9)	(210.3)	(218.9)
Inventory Turn (avg days)	(139.5)	(123.7)	(104.8)	(106.4)	(112.2)
Asset Turnover (x)	0.7	0.6	0.6	0.6	0.6
Current Ratio (x)	0.7	0.6	0.9	1.2	1.4
Quick Ratio (x)	0.4	0.4	0.7	1.0	1.3
Net Debt/Equity (X)	2.9	4.1	5.0	3.3	2.1
Net Debt/Equity ex MI (X)	2.9	4.1	5.0	3.3	2.1
Capex to Debt (%)	15.5	4.0	7.0	(2.8)	0.3
Z-Score (X)	0.7	0.6	0.7	0.8	0.8

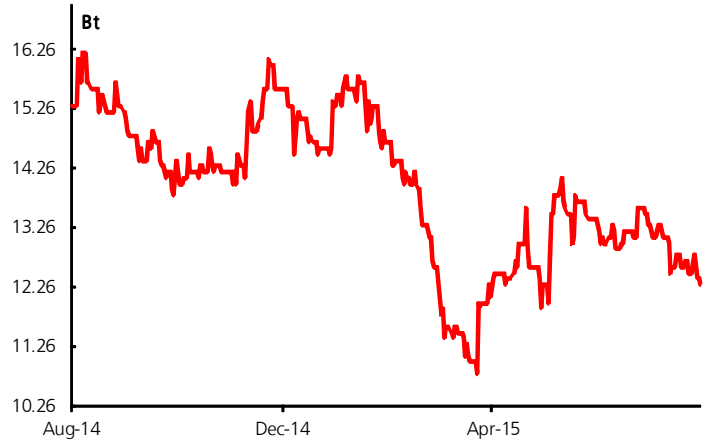
Source: Company, DBS Vickers

Cash Flow Statement (Bt m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	(12,929)	(16,737)	(9,609)	6,784	10,142
Dep. & Amort.	20,026	20,535	21,273	20,347	19,803
Tax Paid	(309)	(290)	673	(475)	(710)
Assoc. & JV Inc/(loss)	(836)	(77)	(415)	(571)	(591)
Chg in Wkg.Cap.	3,045	1,492	(1,104)	129	(72)
Other Operating CF	16,825	436	8,239	0	0
Net Operating CF	**25,734**	**6,019**	**19,057**	**26,214**	**28,571**
Capital Exp.(net)	(27,381)	(7,702)	(14,764)	5,852	(700)
Other Invts.(net)	407	599	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(246)	981	0	0	0
Net Investing CF	**(27,220)**	**(6,122)**	**(14,764)**	**5,852**	**(700)**
Div Paid	(1,088)	0	0	0	0
Chg in Gross Debt	(956)	17,818	21,811	(4,682)	560
Capital Issues	0	0	0	0	0
Other Financing CF	(5,320)	(5,619)	0	0	0
Net Financing CF	**(7,364)**	**12,199**	**21,811**	**(4,682)**	**560**
Currency Adjustments	559	(506)	0	0	0
Chg in Cash	(8,291)	11,589	26,104	27,384	28,431
Opg CFPS (Bt)	10.4	2.1	9.2	12.0	13.1
Free CFPS (Bt)	(0.8)	(0.8)	2.0	14.7	12.8

Source: Company, DBS Vickers

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date	Closing Price	Target Price	Rating

Source: DBS Vickers

Singapore Company Guide

Tiger Airways Holdings

Edition 1 Version 1 | Bloomberg: TGR SP | Reuters: TAHL.SI

Refer to important disclosures at the end of this report

BUY

Last Traded Price: S$0.30 (**STI :** 3,196.66)
Price Target : S$ 0.42 (42% upside)

Potential Catalyst: Earnings recovery and execution
Where we differ: We are one of only two BUY calls on the street, out of eight, and have above average consensus earnings forecasts.

Analyst
Paul YONG CFA +65 6682 3712 paulyong@dbs.com

Price Relative

Forecasts and Valuation

FY Mar (S$ m)	2014A	2015A	2016F	2017F
Revenue	746	677	744	802
EBITDA	(111)	(38)	91	113
Pre-tax Profit	(232)	(273)	41	65
Net Profit	(223)	(264)	39	55
Net Pft (Pre Ex.)	(141)	(72)	39	55
EPS (S cts)	(22.6)	(10.6)	1.6	2.2
EPS Pre Ex. (S cts)	(14.3)	(2.9)	1.6	2.2
EPS Gth (%)	(309)	53	nm	41
EPS Gth Pre Ex (%)	(165)	80	nm	41
Diluted EPS (S cts)	(17.6)	(10.5)	1.5	2.2
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	28.3	8.6	10.2	12.4
PE (X)	nm	nm	19.0	13.4
PE Pre Ex. (X)	nm	nm	19.0	13.4
P/Cash Flow (X)	nm	nm	4.3	6.3
EV/EBITDA (X)	nm	nm	6.1	3.9
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.0	3.4	2.9	2.4
Net Debt/Equity (X)	0.6	CASH	CASH	CASH
ROAE (%)	(93.4)	(107.0)	16.5	19.5
Earnings Rev (%):			-	-
Consensus EPS (S cts):			1.6	2.5
Other Broker Recs:		B: 2	S: 3	H: 2

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

EARNINGS POISED TO TAKE OFF

BUY Tigerair for its earnings recovery story, with >40% upside to our TP of S$0.42. We reiterate our view that Tigerair is poised to see its earnings recover firmly this year, driven by higher yields on capacity discipline, and lower jet fuel costs. Having jettisoned its loss-making associates and taken painful write-offs, and with the support of parent SIA, we project Tigerair to return to a full-year profit of S$39m and S$55m in FY16 and FY17 respectively, after four consecutive years of losses.

Yield recovery and lower fuel costs to drive profits. Tigerair has hedged 40% of its jet fuel requirements from April 2015 to June 2016 at an average of US$94/bbl, which suggests that the Group should see a more significant boost from lower fuel costs ahead, especially from 2HCY2015 onwards. At the same time, the shedding of lower-yielding, loss-making routes should also boost overall yields for the carrier, and drive it towards sustained profitability.

Closer relationship with SIA is also a positive. Tigerair is also now a 55.8%-owned subsidiary of SIA, and has a closer working relationship with SIA, such as the interline cooperation with Scoot and inclusion in the KrisFlyer programme, should lead to greater benefits in the long run.

Valuation:

Share price to rebound as earnings recover. We believe the key catalyst for Tigerair's share price to rerate towards our TP of S$0.42 (based on 8x FY15/16 EV//EBITDAR) is for the airlines to deliver sustained earnings improvement.

Key Risks to Our View:

Vulnerable to demand shocks and fuel price increase. Tigerair, like all airlines, are susceptible to demand shocks such as economic shocks or pandemics, e.g. if the MERS situation escalates further and farther, it would impact air travel in Asia. Fuel costs account for over a third of Tigerair operating costs and should oil prices spike sharply, it would impact on earnings.

At A Glance

Issued Capital (m shrs)	2,498
Mkt. Cap (Sm/USm)	737 / 532
Major Shareholders	
Singapore Airlines (%)	55.8
Free Float (%)	44.2
3m Avg. Daily Val (US$m)	0.9

ICB Industry : Consumer Services / Travel & Leisure

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Lower yields and load factors on excess capacity… The introduction of excess aircraft into Singapore in FY14, due to issues in its Australian operations, led to a decline in both yield and load factors as the Singapore market struggled to absorb the substantial increase (>20%) in capacity. Notably, yield fell significantly and in consecutive years in FY14 and FY15 from FY13, while load factors in both FY14 and FY15 were lower than FY13's as well.

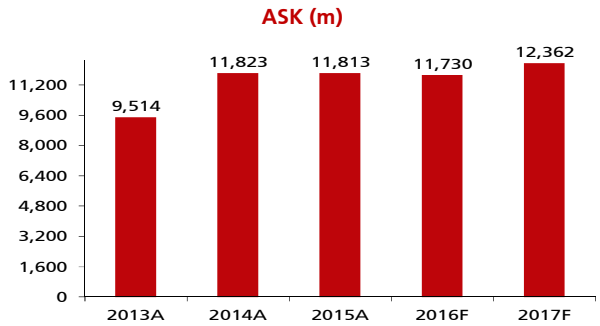
… have led to operating losses in the last two years. As a result of lower yields and load factors, and despite the higher carriage, revenues in FY14 and FY15 were lower than FY13 numbers and operating losses of S$52m and S$40m were posted for FY14 and FY15 respectively, compared to an operating gain of S$7.3m in FY13.

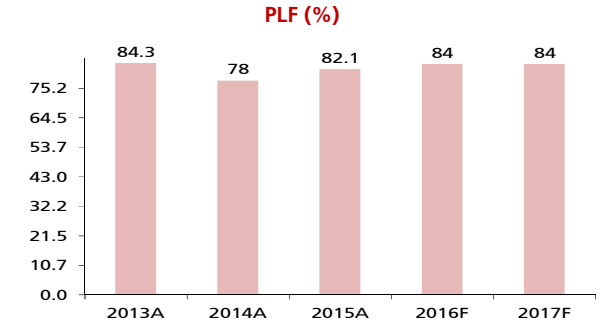
Bleeding associates have been jettisoned and excess aircraft dealt with – at a substantial cost. Meanwhile, Tigerair's associates in Australia, Indonesia and the Philippines have been loss-making since 2013 and have since been disposed of or closed down. Share of associate losses between FY13-15 totalled S$165m while net write-offs and provisions relating to their disposal in FY14 and FY15 reached nearly S$273m.

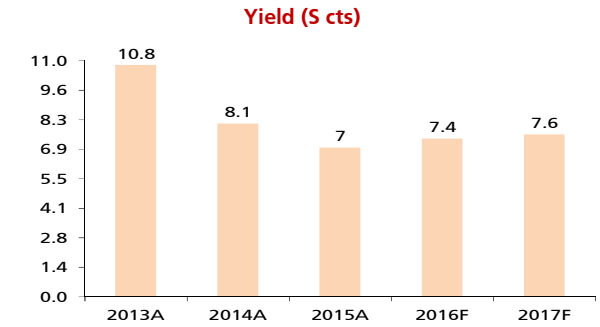
Capacity discipline and shedding of unprofitable routes to help load factor and yields recover… We now expect strict discipline on the capacity front to drive an earnings recovery. We see Tigerair's capacity growth being flattish in FY16, with just 5% growth in FY17. This should in turn provide a lift to yield (we project a 6.3% improvement in yield in FY16 and 2.5% improvement in FY17) while load factor is assumed to recover to 84% in FY16 and FY17 from 82.1% in FY15.

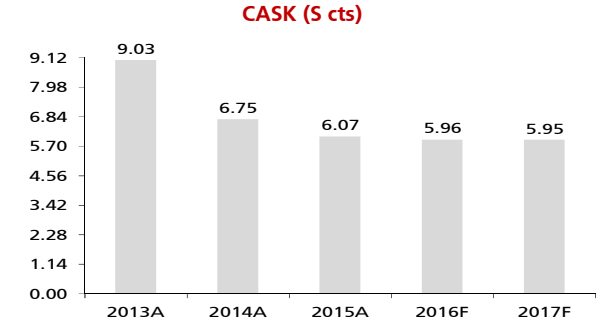
… and together with lower jet fuel costs, should drive Tigerair back into sustained profitability. Tigerair's focus on capacity discipline have started to pay off in the last two quarters, where operating earnings have shown a significant y-o-y improvement when capacity was actually cut (-6% in 3Q15 and -11% in 4Q15). This is a strong indicator that Tigerair should return to full-year profitability in FY16 and FY17. We project full-year earnings of S$39m in FY16 and S$55m in FY17 for Tigerair, after four consecutive years of losses.

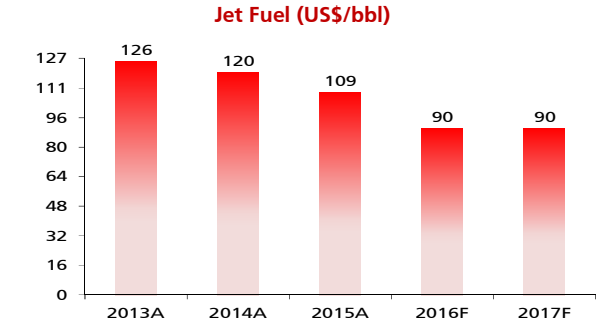
Sustained low oil prices provide further upside. If jet fuel prices continue to hover around current levels of US$75/bbl for the rest of the year, we believe there is earnings upside risk for transport operators in particular, as our jet fuel price assumptions are at US$90/bbl. Hence, there could be bigger cost savings for Tigerair if oil prices do not significantly increase in the second half of 2015.











Source: Company, DBS Bank

Balance Sheet:

Re-capitalised and strengthened balance sheet. A rights issue in the second half of FY15 raised net proceeds of S$227.4m for Tigerair, which has helped to re-capitalise the Group's equity position and left it in a net cash position as at end FYE Mar'15, with shareholders' equity standing at S$215m, or S$0.09 per share.

Return to profitability to boost cash reserves. We project Tigerair's net cash position to improve from S$3m at the end of FY15 to S$172m by the end of FY16, driven by 1) improved profitability, 2) planned disposal of two excess aircraft, and 3) minimal capital expenditure. This should put the Group in a strong position for its future plans.

Share Price Drivers:

Sustained profitability the key driver to share price re-rating. With just three profitable quarters in the last sixteen, the onus is on Tigerair to deliver sustained profitability in order to re-rate its share price. We believe that as the Group delivers its earnings improvement, of which there were nascent signs in the last two quarters, its shares should re-rate to our target price of S$0.42, which is based on 8x FY15/16 EV/EBITDA.

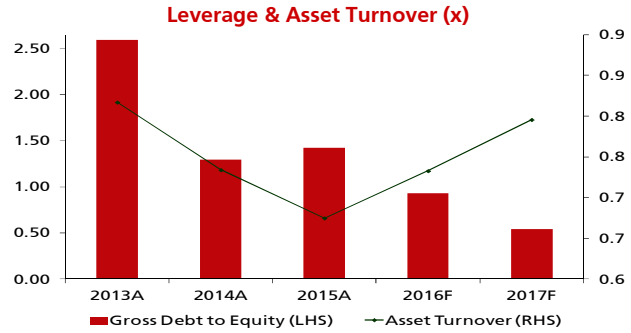
Key Risks:

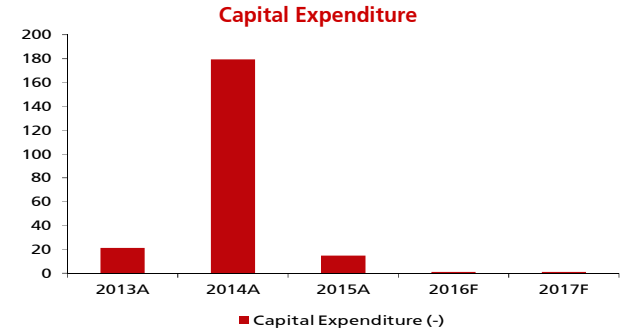
Vulnerable to demand shocks. Airlines are susceptible to demand shocks, which could include pandemics, terrorist attacks as well as economic crises. In Tigerair's situation, they are largely exposed to the economic and demand environment for the S.E. Asia, China and Austral.

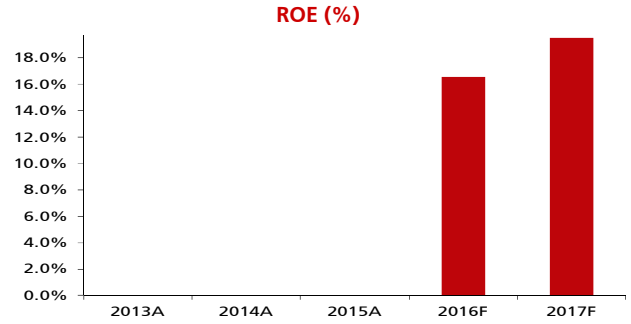
Higher fuel prices would hit earnings. The Group's razor thin profit margins would be negatively impacted if fuel prices were to climb higher significantly. Each US$1 increase in jet fuel price per barrel would decrease the Group's net profit by c. S$2m, all else being equal.

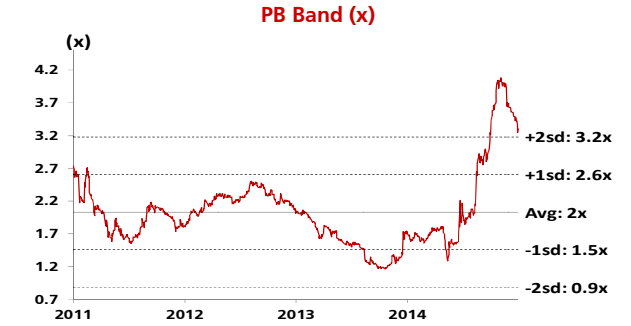
COMPANY BACKGROUND

Tigerair is a low cost carrier headquartered in Singapore, where it has the second highest market share after Singapore Airlines, its majority shareholder. As at May 2015, it operated a fleet of 23 aircraft, flying to regional destinations.









Source: Company, DBS Bank

Key Assumptions

FY Mar	2013A	2014A	2015A	2016F	2017F
ASK (m)	9,514.0	11,944.0	11,813.0	11,730.0	12,362.4
PLF (%)	84.3	78.1	82.1	84.0	84.0
Yield (S cts)	10.8	8.0	7.0	7.4	7.6
CASK (S cts)	9.0	6.7	6.1	6.0	6.0
Jet Fuel (US$/bbl)	126.1	120.2	109.0	90.0	90.0

Income Statement (S$ m)

FY Mar	2013A	2014A	2015A	2016F	2017F
Revenue	866	746	677	744	802
Cost of Goods Sold	(859)	(798)	(717)	(699)	(736)
Gross Profit	**7**	**(52)**	**(40)**	**44**	**66**
Other Opng (Exp)/Inc	0	0	0	0	0
Operating Profit	**7**	**(52)**	**(40)**	**44**	**66**
Other Non Opg (Exp)/Inc	0	2	0	0	0
Associates & JV Inc	(35)	(95)	(35)	0	0
Net Interest (Exp)/Inc	(7)	(5)	(6)	(4)	(1)
Exceptional Gain/(Loss)	(1)	(81)	(192)	0	0
Pre-tax Profit	**(35)**	**(232)**	**(273)**	**41**	**65**
Tax	(10)	9	8	(2)	(10)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	**(45)**	**(223)**	**(264)**	**39**	**55**
Net Profit before Except.	(45)	(141)	(72)	39	55
EBITDA	7	(111)	(38)	91	113
Growth					
Revenue Gth (%)	40.1	(13.8)	(9.2)	9.8	7.8
EBITDA Gth (%)	nm	nm	66.3	nm	24.0
Opg Profit Gth (%)	nm	nm	23.4	nm	49.3
Net Profit Gth (Pre-ex) (%)	(52.9)	217.9	(48.8)	(153.6)	41.4
Margins & Ratio					
Gross Margins (%)	0.8	(7.0)	(5.9)	6.0	8.3
Opg Profit Margin (%)	0.8	(7.0)	(5.9)	6.0	8.3
Net Profit Margin (%)	(5.2)	(29.9)	(39.0)	5.2	6.9
ROAE (%)	(20.3)	(93.4)	(107.0)	16.5	19.5
ROA (%)	(4.3)	(21.9)	(26.3)	3.8	5.5
ROCE (%)	0.9	(7.0)	(5.4)	5.6	7.7
Div Payout Ratio (%)	N/A	N/A	N/A	0.0	0.0
Net Interest Cover (x)	1.1	(11.3)	(7.1)	12.0	69.0

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$ m)

FY Mar	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016
Revenue	172	147	182	172	168
Cost of Goods Sold	(188)	(172)	(178)	(174)	(168)
Gross Profit	**(16)**	**(25)**	**4**	**(2)**	**1**
Other Oper. (Exp)/Inc	0	0	0	0	0
Operating Profit	**(16)**	**(25)**	**4**	**(2)**	**1**
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(35)	0	0	0	0
Net Interest (Exp)/Inc	(1)	(1)	(2)	(1)	(2)
Exceptional Gain/(Loss)	(15)	(160)	0	(17)	0
Pre-tax Profit	**(68)**	**(187)**	**3**	**(21)**	**(2)**
Tax	2	4	0	2	0
Minority Interest	0	0	0	0	0
Net Profit	**(65)**	**(182)**	**2**	**(19)**	**(2)**
Net profit bef Except.	(51)	(22)	2	(1)	(2)
EBITDA	(43)	(17)	12	10	11
Growth					
Revenue Gth (%)	4.7	(14.6)	24.2	(5.5)	(2.3)
EBITDA Gth (%)	(16.1)	59.8	nm	(18.1)	8.0
Opg Profit Gth (%)	32.3	(54.2)	nm	nm	nm
Net Profit Gth (Pre-ex) (%)	13.6	(55.6)	(108.9)	(170.8)	18.2
Margins					
Gross Margins (%)	(9.6)	(17.2)	2.2	(1.3)	0.3
Opg Profit Margins (%)	(9.6)	(17.2)	2.2	(1.3)	0.3
Net Profit Margins (%)	(38.0)	(124.3)	1.2	(10.9)	(1.0)

Balance Sheet (S$ m)

FY Mar	2013A	2014A	2015A	2016F	2017F
Net Fixed Assets	782	570	454	408	362
Invts in Associates & JVs	50	33	0	0	0
Other LT Assets	43	74	126	126	126
Cash & ST Invts	127	182	318	416	459
Inventory	24	110	19	21	22
Debtors	4	5	11	12	13
Other Current Assets	20	12	95	25	25
Total Assets	**1,049**	**986**	**1,022**	**1,008**	**1,008**
ST Debt	148	53	84	84	84
Creditor	154	129	106	116	125
Other Current Liab	129	141	151	157	163
LT Debt	366	307	223	153	83
Other LT Liabilities	53	76	244	244	244
Shareholder's Equity	199	279	215	254	309
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	**1,049**	**986**	**1,022**	**1,008**	**1,008**
Non-Cash Wkg. Capital	(235)	(143)	(131)	(215)	(227)
Net Cash/(Debt)	(388)	(178)	11	179	292
Debtors Turn (avg days)	1.4	2.2	4.4	5.8	5.9
Creditors Turn (avg days)	59.4	67.5	63.1	62.0	63.9
Inventory Turn (avg days)	10.6	32.1	34.7	11.1	11.4
Asset Turnover (x)	0.8	0.7	0.7	0.7	0.8
Current Ratio (x)	0.4	1.0	1.3	1.3	1.4
Quick Ratio (x)	0.3	0.6	1.0	1.2	1.3
Net Debt/Equity (X)	2.0	0.6	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	2.0	0.6	CASH	CASH	CASH
Capex to Debt (%)	(4.1)	(49.8)	(4.8)	0.5	0.7
Z-Score (X)	0.3	(0.1)	0.1	0.7	1.0

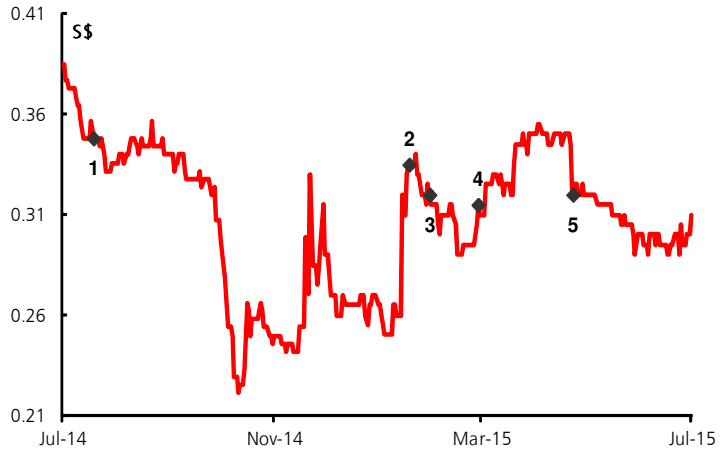
Source: Company, DBS Bank

Cash Flow Statement (S$ m)

FY Mar	2013A	2014A	2015A	2016F	2017F
Pre-Tax Profit	(35)	(232)	(273)	41	65
Dep. & Amort.	34	34	37	47	47
Tax Paid	(3)	0	(1)	(2)	(10)
Assoc. & JV Inc/(loss)	35	95	35	0	0
Chg in Wkg.Cap.	55	6	14	84	12
Other Operating CF	0	0	1	2	3
Net Operating CF	**86**	**(97)**	**(186)**	**172**	**117**
Capital Exp.(net)	21	179	15	(1)	(1)
Other Invts.(net)	0	0	(8)	0	0
Invts in Assoc. & JV	(75)	(196)	(59)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	30	0	0	0
Net Investing CF	**(54)**	**13**	**(53)**	**(1)**	**(1)**
Div Paid	0	(2)	(4)	0	0
Chg in Gross Debt	(69)	(154)	(53)	(70)	(70)
Capital Issues	0	294	227	0	0
Other Financing CF	2	3	4	5	6
Net Financing CF	**(69)**	**137**	**170**	**(70)**	**(70)**
Currency Adjustments	0	0	0	0	0
Chg in Cash	(38)	53	(69)	101	46
Opg CFPS (S cts)	3.7	(10.4)	(8.0)	3.5	4.2
Free CFPS (S cts)	13.0	8.3	(6.8)	6.8	4.6

Source: Company, DBS Bank

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date	Closing Price	Target Price	Rating
1:	31 Jul 14	0.35	0.25	Fully Valued
2:	30 Jan 15	0.34	0.33	Buy
3:	11 Feb 15	0.32	0.33	Buy
4:	11 Mar 15	0.32	0.39	Buy
5:	05 May 15	0.32	0.42	Buy

Source: DBS Bank

DBSV recommendations are based an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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